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CONTENTS

Business Bloc Leader on Party's Goals

91BA0893A Sofia DUMA in Bulgarian 5 Jul 91 p 4

[Interview with Zhorzh Ganchev, chairman of the Bulgarian Business Bloc, BBB, by Mila Manova; place and date not given: "Five-Percent Stability Is Better Than None"]

[Text] [Manova] Business, which is very slowly developing in our country, is very weak and vulnerable. Could this be the reason the BBB [Bulgarian Business Bloc] is at present giving priority to politics?

[Ganchev] Economics and politics go hand in hand. The easiest thing today is to accumulate speculative funds. Meanwhile, the majority of the people have lost faith and feel humiliated. Our party would like to give them back their pride and work for the development of a businessman's standards and culture. That is why we try to be where the majority of the people are. We have organizations in 18 cities and 17 municipalities. Our supporters number in the tens of thousands, but our economic views will be achieved only if we gain political authority. You know where laws are being made, and the practical steps for the reform are being taken.

[Manova] You are quite familiar with Europe and the United States. There, there are no business parties. Politicians deal with politics and business circles with business.

[Ganchev] Throughout the world, business is "hiding" behind political life but frequently "pulls the strings" within it. We, however, have openly identified ourselves as a business bloc because it is particularly necessary for Bulgaria to approach its problems pragmatically and to shorten the distance from sterile politicking to making decisions conducive to an economic revival. The fact that I, personally, while engaging in politics, will not confuse it with commercial activities, is a different matter. Mr. Mollov said that he is not rich enough to engage in politics, and he is absolutely right.

[Manova] Does this mean that your ambition is for your party to establish its reputation by promoting business? What about its specific plans?

[Ganchev] We want to be properly represented in future elections and, consequently, to participate in a political coalition. We have never conceived of the country's immediate future without a coalition government, and, in this case, we are close to the positions held by the BSP [Bulgarian Socialist Party]. We have repeatedly announced our centrist orientation. We are able to see something good to both the left and the right of us. The role of equalizer stems from our views and program, which is based on a consensus, on making use of all unification elements in mobilizing the nation so that it may pull out of the crisis.

[Manova] There are many who aspire to belong to a political center. In that sense, are you trying to set up some kind of new coalition association?

[Ganchev] Statements in favor of centrism are not synonymous with centrist behavior. I had a frank discussion with Mr. Dertliev, to whom I said that, if they struggle for something related to socialism, our paths will separate. In the case of our party, that type of social system offers no alternative whatsoever. We could be part of the SDS [Union of Democratic Forces] electoral ticket, but that involves multifactor commitments, which are currently being mentioned only in the abstract.

[Manova] Your program shows that you particularly reject the views of equal economic start. Why, since you claim that you would like to represent the interests of the majority of the people, of the small and medium-sized owners, rather than the big owners alone, do you wish this?

[Ganchev] To us, such an equal start is the first prerequisite for halfway and even failed economic reforms. What does this mean, since we have the old owners, and reprivatization will enable them to regain and utilize their possibilities? People are born with different qualities, and no one could make them equally able to engage in economic activities. Let those who are able and initiative-minded be given the right to truly develop and accumulate capital. The social programs of the state and the government in a healthy economy will be able to take care of the others.

[Manova] That sounds quite cruel. What the Bulgarians want more are certain guarantees for social equality. Are you not alienating the voters with such a categorical view?

[Ganchev] Populist slogans are fashionable today. The truth, although harsh, is more necessary. In your view, how many people today are ready to mortgage their property, to borrow money, to start some kind of business, and to take a risk? How many of them would succeed? As to those who earn more, should they collect only the crumbs so that the state would redistribute what they have achieved among the others who have risked nothing? The citizen must learn how to be concerned with himself and his personal enrichment and not rely on the state.

[Manova] What is the biggest threat now to private business and the entire economy?

[Ganchev] The Bulgarian people are able, talented, and enterprising. However, their hands have not been sufficiently untied. Did you know that the new credit and interest policy makes any business start impossible? It was not preceded by reprivatization. The revival of agriculture, under such circumstances, is more than questionable, not to say impossible. Our economic program is different not in terms of objectives but in terms of the mechanisms and stages leading to their implementation. We believe that priority should be given to the development of agriculture, the food industry, and tourism. We have an entirely different plan regarding the free economic zones, the natural center of which are Sandanski, Plovdiv, and Varna. They will contribute to

freer and more balanced integration, turned to the old continent and not only to Turkey, and so forth. We are particularly disturbed by the underestimating of the economic positions we traditionally hold in terms of the Soviet Union. The attitude of many of our political forces toward the former "big brother" I would even describe as cynical, not to mention the fact that it conflicts with our economic interests.

We are also concerned that steps are being taken that do not bring us closer to Europe but lead us in the opposite direction. There is much talk about the Bosphorus and Washington. Meanwhile, the current unpopular measures and their authors are hiding behind the "umbrella" of the International Monetary Fund.

[Manova] Do you think that serious business circles in the developed countries are inclined to invest in our country?

[Ganchev] No, not before there are stability and clear-cut laws. For the time being, there are neither.

[Manova] Therefore, you, too, would rather have a new parliament?

[Ganchev] That parliament will inevitably come, but after the present parliament has completed its work. We have made a start, something has been done, although not very much. In the next stage, we shall support a strong presidential system, a French system. Five-percent stability is better than no stability. It is time to forget negativism and revenge. A democratic state, not to mention its economy, cannot be built on revenge. Is the economic *nomenklatura* the only obstruction? Yes, some of it is obstructing, but do we also not have corrupt professionals? It would be absurd to repeat the events of 9 September 1944, to isolate some of the potential of the nation for political reasons.

[Manova] What is the attitude of the BBB toward the BSP?

[Ganchev] All ideas have the right to compete. The guilty will bear the consequences, but no one should prevent others from changing the nature of their parties.

[Manova] In one sentence, what is most necessary today?

[Ganchev] People who will take risks, professionals, whatever their coloring, who will not obstruct one another but will work! We must have common interests because, otherwise, this country will plunge into an ever-deeper recession, into an economic and spiritual decline.

Data on Citizens Exiled From 1946 to 1953

AU2307103791 Sofia BTA in English 0856 GMT 23 Jul 91

[Text] Sofia, July 23 (BTA)—7,025 families totalling 24,624 people were exiled from their homes in Bulgaria between 1946 and 1953, "TRUD" writes today.

The newspaper runs lists of documents and names of high-ranking functionaries of the Bulgarian Communist Party and the Ministry of the Interior who controlled "operations" in which people whose relatives had emigrated or who had otherwise incurred the displeasure of the authorities were sent into internal exile.

In just seven years, more than 20,000 people were exiled from their homes, deprived of work and forced to live in misery. Their children were barred from study at the university, from foreign travel and work of their own choice. Their property was seized by the members of the new regime who paid nothing for it, the newspaper writes, describing the mass exiles as a crime against humanity without statutes of limitation.

Prime Ministers Meet To Discuss Power Sharing

AU1907162391 Prague CTK in English 2042 GMT 17 Jul 91

[Text] Prague July 17 (CTK)—Czechoslovak, Czech, and Slovak Premiers Marian Calfa, Petr Pithart, and Jan Carnogursky met here today to discuss transport and communications, agriculture, and the Army.

Also present at the meeting were Czechoslovak Minister of Telecommunications Emil Ehrenberger, Transport Minister Jiri Nezval, Economics Minister Vladimir Dlouhy, and First Deputy Chief of Staff of the Czechoslovak Army Rudolf Duchacek.

Ehrenberger told journalists after the meeting that it had focused on the still unsettled issue of devolving the power to found state enterprises from the federal to the republic level. The premiers decided to establish two commissions of experts to reassess the issue.

Nezval said representatives of the Czech Republic and the federation wanted the railway system in Czechoslovakia to remain united, but Slovak officials called for its division into Czech and Slovak parts. Nezval also cited power-sharing problems in the area of air transport.

Duchacek said the timetable for the redeployment of the Czechoslovak military units to other parts of the country (by the end of 1992) will be adhered to despite delays caused by reconstruction of facilities vacated by the Soviet Army.

Dlouhy announced the Czechoslovak Federation not only is prepared to grant 1,100 million crowns in grain export subsidies, but will also allocate a further 2,400 million crowns to subsidize surplus meat, milk, and dairy products. A document on changes in subsidies and allocations policy on the republic level will be submitted to the Federal Government by July 25, he said.

Carnogursky told journalists that the issue of the intention of the Slovak Gas Enterprise s.p. Bratislava, to create the TRANSGAS joint stock company, is to be resolved at a meeting in Bratislava between Dlouhy, Czech Minister for Economic Policy and Development Karel Dyba, and Slovak government representatives on July 24.

The enterprise failed to consult the federal and Czech authorities on the proposed move.

Minister Sends Letter to Union Leader on Talks

LD2107202991 Prague CTK in English 1645 GMT 21 Jul 91

[Text] Prague July 21 (CTK)—Czechoslovak Minister of Labor and Social Affairs Petr Miller today sent an open letter to President of the Czechoslovak Confederation of Trade Unions Roman Kovac, stressing that the sense and aim of tripartite discussions between the government, employers, and trade unions is a preliminary consultation of materials concerning working and social conditions.

Miller's open letter was a reaction to the decision by the trade union leaders to suspend entire negotiations in the framework of the council of economic and social agreement at the federal level in protest against the decision by the Federal Government to preserve the current 2,000-crown minimum wage level.

The councils of economic and social agreement [Czech, Slovak, and Federal] are in fact consultative bodies and it is the Federal Government which, in accord with the constitution, bears exclusive responsibility for the consequences of a final decision, the letter said.

The Federal Ministry of Labor and Social Affairs proposes that the minimum wage level be set by the parliament as of 1992. The Federal Government should be authorized to regulate its level according to the needs.

CASTER To Publish OBCANSKY DENIK

AU2307094191 Prague OBCANSKY DENIK in Czech 19 Jul 91 p 1

[Unattributed report: "An End to OBCANSKY DENIK's Insecurity"]

[Text] Our readers and subscribers certainly could not have overlooked the considerable problems OBCANSKY DENIK had with its publisher, the Czechoslovak Charter 77 Foundation, in the recent past. Thanks to behind-the-scenes politicking, this organization gave up the project of an independent daily conceived in the best traditions of European liberal papers. Therefore, we are glad that the publisher issue is settled now. CASTER Ltd. has become the new publisher. It promised to continue publishing the paper as an independent daily supporting the development of pluralistic democracy in an integrated European community.

Production of Rocket Launcher Equipment Reduced

AU2207082391 Prague HOSPODARSKE NOVINY in Czech 18 Jul 91 p 7

[Interview with Jan Dosek, director of Adamov Machine Works, by unidentified CTK correspondent; place and date not given: "Arms Production Reduced"]

[Excerpts] [Dosek] The production of special technology in our state enterprise constitutes about 13 percent of the total production. That is about one half less than last year. We have discontinued the production of missiles and of range-finding equipment for rocket launchers. The main facility of the enterprise is filled with printing, measuring, and pumping technology. I expect this year's production volume to reach approximately 2 billion korunas. [passage omitted]

[CTK] Will you continue reducing arms production?

[Dusek] The arms production of the anti-tank guided missile technology is reserved only for the Czechoslovak Army. In my opinion, it will be maintained for another two or three years.

Stability of Rules a Must in Privatization

91CH0696B Prague HOSPODARSKE NOVINY in Czech 27 Jun 91 p 18

[Article by Ludmila Kolarova: "The Stability of the New Ownership Relationships"—first paragraph is HOSPODARSKE NOVINY introduction]

[Text] Articles 7 and 9 of the valid Constitution of the CSFR lay the foundation for equality of rights for all owners, citizens, legal entities, as well as the state and protect ownership. The expropriation of property or other forced restrictions are possible only in the public interest by the action of the law or on the basis of law and in return for compensation. Even legal entities—commercial companies, including joint stock companies, which came into being and are coming into being after 1 May 1990 in accordance with the Economic Code and the Law on Joint Stock Companies must be considered to be owners who have equal rights with other owners.

Such legal entities are independent entities and owners with full rights, irrespective of who is their founder, their associate, or their stockholder. The ownership rights of the founder or founders, associates, or stockholders to property deposited as a monetary or nonmonetary deposit in a company during its establishment become null and void and such property becomes the property of the company. From the standpoint of the valid legal arrangements, such a company is a private legal entity rather than being a certifiable administrator of foreign (for example, national) property. All property created as a result of the activities of the company belongs to the company and the share of associates or stockholders in the profit of the company is determined by the company through its organs in accordance with rules stipulated by law, but particularly on the basis of the company contract and the company statutes. A share in company property can be claimed by stockholders or associates for distribution only in the event that the company is liquidated.

I consider the introduction to the problem to be necessary in view of the opinions presented even in the pages of this journal, which hold that property which the state has deposited in companies, particularly in joint stock companies, may be the object of so-called small-scale privatization—in other words, that it can be taken from owners or that, in its material image, it can be the object of so-called large-scale privatization. To the extent to which such intentions are being considered, they can be compared only to preparations to commit burglary with a weapon in hand under particularly contemptible circumstances. The weapons in question are supposed to be Law No. 427/1990 and Law No. 92/1991, or their significantly deformed interpretations.

The Legality of Transferring Property to the State

Before dealing with the justification of this contention, I would like to touch upon a very important aspect of the entire problem which is the legality of the acquisition, transition, and transfer of state property to other forms of ownership—for purposes of this consideration, to legal entities.

From this perspective it is important to realize what the methods were like following 1 May 1990 for the various legal amendments of legal instruments involved in transfers and transitions of state ownership rights involving that portion of state property which was entrusted to state enterprises for management. I do not consider the problem of budgetary and contributory organizations handled by national committees—see Section 1 of Law No. 427/1990 to be essential, important, and topical from the standpoint of this consideration, nor from the standpoint of the current reality.

The first time segment with which it is necessary to deal is the period from 1 May 1990 through 31 October 1990 when, following the amendment of the Economic Code, the issuance of Law No. 111/1990 on state enterprises and while the remainder of Decree No. 119/1988 on handling national property was still valid, unfortunately, any kind of barriers to transfers and transitions involving those parts of national property which state enterprises had the right to manage to the ownership of other individuals were seemingly removed. The situation was substantially changed and, in my opinion, rendered much more complicated as a result of its form and the stipulated procedures, by the legal provisions passed by the Presidium of the Federal Assembly, Federal Assembly Law No. 364/1990, which, for the given period and with partial retroactivity, stipulated that if legal documents regarding the transfer of part of national property to the ownership of other persons are not presented to the founder of the enterprise for evaluation by 31 October 1990, they would be considered invalid from the beginning. With respect to those documents for which the deadline for presentation was met, the founder was to judge their validity, clearly with the result of subsequent approval or disapproval.

From the above, it can be concluded that between 1 May 1990 and 31 October 1990 those portions of national property, the transfer of which, or the legal documentation for which, was adequately judged as being valid by the founder were transferred legally to the ownership of other individuals and in harmony with the law, after the subordinate state enterprise had submitted them to the founder for evaluation of their validity by 31 October 1990. Moreover, it is necessary to reach the conclusion that there could exist an undetermined total of transfers—legal actions which were invalid from the very

beginning and the property of which, thus illegally transferred, remained within the ownership of the state as of 31 October 1990.

As far as transitions of state property during the period under consideration are concerned, it is necessary to point out those cases in which the founders of state enterprises made use of procedures according to Section 32, Paragraphs 3 and 4, of Law No. 111/1990 on state enterprises and deposited the material property of the disestablished state enterprise with another entity. Understandably, such property was no longer owned by the state as of 31 October 1990 and the state (in the case of a joint stock company) was only a property participant as of that date.

Following the date on which Legal Provision No. 364/1990 became effective, and particularly in the period after 1 November 1991, it was possible to legally transfer part of the national property, which the state enterprise was entitled to manage, to the ownership of other entities through the legal action of these state enterprises after such legal action was first approved by the founder.

During part of that period, but only until 31 December 1990, transitions could be accomplished in accordance with Section 32, Paragraphs 3 and 4, of the law on state enterprises. After 1 January 1991, such a procedure was no longer possible so that during the period from 1 January 1991 through 31 March 1991, when the legal provision ceased to be effective, there was only an exceptional possibility for transfers, with prior approval of the founder.

After 1 April 1991, that is to say, from the date the law on so-called large-scale privatization became effective, only the transfer of part of national property to the ownership of another person with prior approval of the appropriate government can be considered as an exceptional method; in addition to this method, however, there is the procedure in accordance with Law No. 427/1990 (on the so-called small-scale privatization), which is effective as of 1 December 1990, and, understandably, the regular, that is to say, the nonexceptional, procedure, in accordance with Law No. 92/1991, on so-called large-scale privatization.

During the listing of legal methods for transferring and passing parts of the national property to the ownership of other entities, one cannot overlook the liquidation of state enterprises in accordance with Section 27a and the subsequent sections of the Economic Code, which were valid for the entire period under consideration and continue to be valid, although I have my doubts as to whether they were ever used.

Do Not Introduce Insecurity

Following this excursion, I wish to return first to the considerations surrounding the use of Law No. 427/1990 for purposes of privatizing so-called state joint stock companies. In this connection, the view was first presented that, in consideration of the provisions of Section 1 of the law, it is possible to privatize all property which was owned by the state as of 1 November 1990.

To the extent to which we permit this time frame to be dominant, in and of itself, as a condition for the application of Law No. 427/1990, we must realize that—in the view of the proponents of these considerations—we would be dealing with small-scale privatization of even such property which was legally transferred or passed to other owners after 1 November 1990, for a period which is limited essentially only by the effective date of the law, something which would cause chaos in ownership relationships and absolute legal insecurity among the owners and would violate the constitutional principles listed at the head of this article, not to mention being a violation of all of the previously mentioned laws.

The law on so-called small privatization cannot be applied in cases where, although the property was owned by the state as of 1 November 1990 and the right to manage it was being implemented by organizations listed in Section 1 of the law, but which was, after this date, legally transferred to the ownership of another entity in accordance with another law (for example, to a joint stock company). This, in effect, implemented privatization and the state can only dispose of securities to the extent that it owns them. It would be possible to apply the law in cases where, between 1 May 1990 and 31 October 1990, no legal transfer took place in view of the legal provision; however, these cases would first have to be identified. The prerequisite, however, is even the current existence of the organization, as listed in Section 1 of the law.

The condition that the law is applicable to property which was owned by the state as of 1 November 1990 may be interpreted and utilized only in the sense that it serves to identify such property at the given moment, with the proviso that, as of 1 December 1990, this property can and may only diminish with one method for this diminution—and not the only one—being the procedure outlined in this law. However, the regime of the law on so-called small privatization cannot be superimposed upon additional methods—that is to say, methods adjusted by other laws, because they stand alongside each other. Moreover, it did not occur to anyone that, in future, it would be possible to subject property privatized in accordance with Law No. 92/1991 to the process of so-called small-scale privatization, even though this and other current considerations offer themselves.

Utilization of the law on so-called small privatization is, thus, possible only in those cases in which the state was the owner of such property as of 1 November 1990 and remained the owner of such property until the moment the auctioneer's hammer fell. In this connection, it is not possible to exclude cases in which the state itself legally acquired the property after 1 November 1991 [sic] for other reasons, for example, as a result of reversion, but these will be extremely rare cases.

Attempts at Double Privatization

Additional considerations regarding methods by which it would be possible to subject part of the property of so-called state joint stock companies to small privatization in the guise of reducing the basic net worth, to be implemented by the ministry—the founder, supplanting the institution of a general meeting and, thus, identifying those operating units which will be gradually privatized—cannot remain unnoticed.

Property cannot be returned to the state even through the device of the indicated "operation" involving the lowering of the basic worth of those joint stock companies whose sole stockholder is the state and in which an organ of the state executes the function of a general stockholders' meeting; the actual lowering of the basic initial capitalization does not mean that the joint stock company—a legal entity—loses the right of ownership to a certain item (an operating unit). Only a joint stock company has the right to dispose of its property and in the case of a transfer involving bribery the equivalent monetary content, that is to say, the price, becomes the property of the company.

In this connection, I cannot resist remarking that in a real economy, no general stockholders' meeting in the world would behave in this manner because the stockholders' meeting is an organ of the company and because its primary interest is to maximize the property of the company. It is, thus, not an organ of the state which believes that, through it, it can arbitrarily "loan" property to a company and, in a little while, can again rob it of this property. The criticized considerations are compelling proof of the pathological nature of the phenomenon which can be called the "state joint stock companies" in our concept and are proof of the total failure to understand the fact that ownership is the basis for the existence of suitable and viable market entities. It is not the task of the state to loot, but rather to protect ownership.

Of the indicated problems, there still remains the need to mention its relationship regarding Law No. 92/1991 on so-called large-scale privatization. The primary condition for applying this law is the fact that only state property—material or nonmaterial property—and property participation segments sponsored by the state may be privatized. Given the situation in which state property, prior to the effective date as well as after the effective date of the law, was legally transferred to the ownership of other entities, it can clearly no longer be privatized, because it has already been privatized. To the extent to which the state acquired property participation through a transfer or passage of property in the undertakings of another entity (particularly securities), the privatization of this property participation can be accomplished by using the provisions of Section 9 of the law. The forms of participation considered may be both coupon privatization as well as the sale of securities on the securities market.

In conclusion, I wish to briefly mention that state property which operations conducted by the Ministry of Industry of the Czech Republic and the Ministry of Agriculture of the Czech Republic were not successful in converting to ownership of the so-called joint stock companies worth hundreds of thousands (see HOSPODARSKE NOVINY, No 19, 1991) from March 1991.

This property, that is to say, the property of state enterprises which were disestablished without being liquidated, cannot be subjected to the process of either small-scale or large-scale privatization. As far as small-scale privatization is concerned, this is prevented by the very concept of Law No. 427/1990, because the law presupposes the existence of an organization—in our case, a state enterprise—and its active participation in the privatization process (see, for example, Sections 4, 9, 11, 16, and other sections of the law). Similar reasons may be found in Law No. 92/1991 dealing with so-called large-scale privatization—for example, Sections 1, 2, 11, 16, 17, 18, 19, and other provisions. Not even the fact that, in the event of disestablishment of an enterprise, its liquidation stands in first place, without any provisions for the valid handling of its property, its rights, and its obligations, can be overlooked in view of Section 15 of Law No. 111/1990 on state enterprises and Section 27a of the subsequent Economic Code.

Privatization Problems Viewed by New Owners

91CH0696A Prague HOSPODARSKE NOVINY in Czech 27 Jun 91 pp 10-11

[Article by Aram Simonian: "Calls for the Transformation of Commerce"—first paragraph is HOSPODARSKE NOVINY introduction]

[Text] The communications media are devoting a great deal of attention to the auctioning of sales outlets, to any record proceeds resulting from these auctions, as well as to the opposite extremes—proceeds resulting from so-called Dutch auctions. Enterprises which are very likely threatened with extinction as a result of small-scale privatization and restitutions have somehow remained outside this interest shown by the media. Because these enterprises account for approximately 70 percent of total retail sales and because, by 31 March 1991, they had inventories of merchandise valued at 52.1 billion Czech korunas [Kcs] (including Kcs31.5 billion in the Czech Republic and Kcs20.6 billion in the Slovak Republic), the problems connected with their liquidation cannot be overlooked. Therefore, HOSPODARSKE NOVINY asked 72 directors of state enterprises which engage predominantly in retailing activities in the Czech Republic for their opinion regarding the future of the organizations directed by them and their views on the probable consequences of the possible liquidation of their enterprises. Thirty directors and one female director found the time to provide comprehensive responses. The majority of these individuals also expressed their gratitude for the fact that anyone was even interested in the fate of their enterprises. Their

evaluation of the course of small-scale privatization along with their critical observations and suggestions for a conceptual solution are being presented to our readers and we hope that they may also penetrate to the appropriate official levels.

Profitability

All of the enterprises, whose directors responded to us, were still profitable during the first quarter of this year. Some 15 food markets achieved a high average level of profitability, but recorded a declining trend. In this regard, significant influence was being attributed to the imprudent January explosion of commercial surtaxes.

Pavel Sindelar, Doctor of Jurisprudence, Potraviny Food Stores, Plzen

Our enterprise achieved a first quarter 1991 return on investment of 62.3 percent. This higher return resulted from the methodological influences having to do with changes in accounting procedures involving the business span, as well as resulting from the overpricing of merchandise to match the new purchase prices and, partially, also as a result of higher commercial discounts, which were mandated at the beginning of 1991 without a more detailed knowledge of the subsequent development of costs. During the course of February and March, the business margin, and thus even the prices, were gradually lowered and this process continues. As a result, profitability as of 30 April 1991 dropped to 49.3 percent and for April alone is only 12.2 percent (the average for the year 1990 amounted to 25.6 percent).

Miloslav Stross, Potraviny Centrum Food Stores, Prague

The overall profitability of the Potraviny Centrum Food Stores in Prague 1 for the first quarter of 1991—at 40.1 percent—was influenced by the liberalization of prices which occurred on 1 January of this year when, for the month of January, a 78.1-percent profitability was achieved. In February and March, as a result of the trend in retail sales, there was a gradual decline in profitability which amounted to 26.5 percent for February and 25.1 percent for March (in April, it actually dropped to 17.9 percent).

Nonfood enterprises have already encountered a substantial demand barrier and will clearly soon be losing money. For example, the cost profitability of the Household Appliances Store in Brno was 0.23 percent during the first quarter (in 1990, it was 70.6 percent).

Eng. Leslav Veverka, Household Appliances Store, Brno

The decline in profitability was particularly influenced by a drop in revenues resulting from a sharp drop in sales involving a large number of items being sold—particularly investment-type consumer electronics items which are imported from neighboring Austria either directly by citizens or by various speculators who do not pay sales tax or import surtaxes.

Enterprise Vitality

Twelve directors of food stores, two directors of household appliances stores, three directors of miscellaneous merchandise stores—Drogerie Drug Stores, and four directors of textile stores—Odevy Clothing Stores (representing 67.7 percent of the total number of responses) expect that their enterprises will not survive the process of small-scale privatization. Many of them predict that the unregulated extinguishing of their enterprise will have harmful effects.

Rudolf Schwarz, Pramen Food Stores, Strakonice

Everything depends on the okres privatization commission, which is insisting on registering all operating units for auction and the enterprise cannot survive this way. Nevertheless, we anticipate that it might be possible to privatize a part of the enterprise under large-scale privatization (particularly the wholesale portion), as long as the central organs (the Ministry of Commerce, the Ministry for the Administration of National Property and Its Privatization) show at least a minimum interest in such a solution; however, they can clearly be compelled to do so only by the negative effects of the next stage of small-scale privatization—the disintegration of the foodstuffs market and its consequences to the supply situation.

Miloslav Stross, Potraviny Centrum Food Stores, Prague

I anticipate that the enterprise will continue to exist until the end of this year, but during that period the enterprise will already be insolvent and its liquidation will essentially already be under way. Thus far, our founders—the Ministry of Commerce and Tourism of the Czech Republic—has not clarified any concept as to the method by which the enterprise will operate economically during this period.

Eng. Milan Divis, Pramen—Meat Food Stores, Prague

In no event do I believe that our enterprise will survive small-scale privatization. It is quite evident that no side is interested in the survival of enterprise structures, even though they have been functioning, say, for only six months (this is my own case). Due to the current process of auctioning, the entire commercial network is being set back by more than 50 years. The successful bidders for sales outlets will not have the necessary financial resources in any case so as to be able to improve and build up their outlets within the next five years.

It is generally known, and this is also the case of our enterprise, that the capital asset write-off ratio within commerce is higher than 70 percent. And if Minister Jezek claims that small entrepreneurs will find their way to Western capital for the development and modernization of the commercial network on their own for thousands of auctioned operating units, he can perhaps not

even believe that himself. I cannot imagine that AHOLD and similar reputable companies would want to operate with such dumps.

Vladimir Marek, Drogerie Drug Stores, Usti nad Labem

If the trend involving the existing privatization process continues in such a chaotic manner as it is publicized by organs of the Ministry for the Administration of National Property and Its Privatization, there will most certainly ensue great difficulties and disruptions in the supply situation for the population and we shall have economic losses—most likely as early as during the second half of this year. Existing experiences indicate that assortments of goods are being very much restricted in privatized sales outlets. Specialized outlets for industrial goods will obviously be particularly apt to disappear because the new owners—predominantly as a result of a shortage of the necessary operating capital—are focusing only on merchandise which they can turn over rapidly. Comprehensive offerings will clearly disappear and consumers will be searching without hope under these new conditions for merchandise in the so-called occasional-use category. Objectively stated, the situation is already now deteriorating even in the existing state network because enterprises cannot effectively acquire supplies, say, of seasonal goods because of high interest charges. Obviously, this situation will be exacerbated by the disintegration of existing enterprises from the viewpoint of their personnel and I find it hard to even visualize the subsequent status too clearly.

The Shady Sides of Small-Scale Privatization

Directors of retail enterprises have amassed some quite extensive experiences during the course of the auctions which have taken place hitherto. They wrote to us about them.

Jiri Kansky, Potraviny Food Stores, Usti nad Labem

Small-scale privatization is resulting in a whole series of serious problems. I would consider the greatest problem to be the fact that many successful bidders for operating units will not pay us for inventory within 30 days, which results in as much as 31.5 percent higher interest charges charged by financial institutions. Any possible opportunities to charge penalties are expressly lower. I would, therefore, recommend that the penalty charges be either expressly increased or, better still, that, within the framework of amending the law on small-scale privatization, the successful bidder should be required by law to pay for inventory within 30 days and, in the event he fails to do so, the validity of the auction should be rescinded.

Eng. Bohuslav Dvorak, Miscellaneous Merchandise Store, Prague

The supply situation is further exacerbated by the long-term closing of enterprises which were auctioned and which, after a given time, which is usually between 30 and 40 days, are again returned to the enterprise. Inventory is taken when the operating unit is handed over to a private individual and, later, again when it is returned to the enterprise. In the meantime, what happens is that the successful bidder does not open the store for a long period of time because of a shortage of financial means or because he has no clear concept as to what he will do with the sales outlet. In any event, the sales outlet is out of commission and customers do not have the opportunity to make purchases. After the sales outlet is returned to the enterprise, it is virtually impossible to find a manager for the operating unit because it is clear that the privatization commission will again register the sales outlet for auction within a month. If the sales outlet is successfully auctioned, it is again closed for reasons of taking inventory and due to the entire transfer operation. Customers are, thus, deprived of the opportunity of purchasing basic necessities for a long period of time.

Another unresolved question involves the fact that successful bidders are not paying for inventory located in auctioned sales outlets in accordance with the law and are deferring payments for a longer period of time. If an enterprise has a substantial number of sales outlets, there is the possibility that the transfer of merchandise could be considered. However, it has not been decided anywhere what the enterprises will do with the inventory worth millions once there is no place to which to transfer it. And it is understandable that a successful bidder, who acquires a drug store sales outlet and wishes to operate a gallery, a boutique, or a wine bar on the premises will make use of all opportunities to get rid of drug store merchandise. Within six months, the inventory, which is worth millions and cannot be placed anywhere, becomes an unsolvable problem.

Zdenek Bartos, Ph.D., Household Appliances Store, Prague

Compensation for inventory in a sales outlet by the successful bidder is a mammoth problem. According to Law No. 427/90, the successful bidder is to compensate the organization for the price of inventory within 30 days following the public auction. However, failure to adhere to these conditions does not result in the annulment of the validity of the auction, as is the case in the event the price of the operating unit is not paid. Bidders are aware of this gap in the legislation and are making use of it to defer paying for inventory and to exert pressure so as to transfer inventory under more advantageous conditions (the category of the price of supplies is, in and of itself, extremely problematic—the operating unit lists the value of inventory in retail prices, it is sold to the bidder at actual cost, but the bidder frequently does not wish to accept even these prices because he has the opportunity of purchasing the same merchandise cheaper), and all this is accomplished clearly at the expense of the economic results of the organization. Of 21 operating units sold at auction by 13 May 1991, where the total price of inventories (reduced by commissions) was Kcs49.047 million, inventory was compensated for six cases at a value of Kcs6.996 million. The

difference, that is to say, Kcs42.051 million, continues to be carried as a credit by the state enterprise.

Eng. Jiri Ascheri, Magnet, Pardubice

I also believe that if installations, buildings, and plots of land were sold without auction at market values, this would serve to establish the deadlines for transferring sales outlets to private ownership, but also the proceeds from these sales would be far higher and various types of speculation, which are common during auctions, could be prevented.

What is most dangerous is the fact that the slow disintegration of commercial enterprises has a negative impact upon production. During the first quarter, the unfavorable impact on production did not manifest itself at all (production delivered goods in accordance with concluded contracts dated 1990). In the second quarter, the negative impact amounted to 50 percent, but in the third quarter it will surely result in a situation in which state commercial enterprises will cease buying and private individuals account only for a negligible percentage of sales from production enterprises.

Jiri Kansky, Potraviny Food Stores, Usti nad Labem

The current situation already shows that the majority of successful bidders for food stores are not achieving better results as far as raising the level and as far as acceptable price levels are concerned, as was originally anticipated. It is a paradox that we are being criticized by these entrepreneurs for the low price level of merchandise, at which we arrived by carefully calculating expenditures of various kinds, by purchasing larger quantities of goods, by consistently negotiating with suppliers, including importers of some types of goods in other regions, etc. However, we did not have these opportunities at the beginning of the year. Therefore, as long as small-scale privatization continues at this pace and using these methods, the disintegration of the market threatens by the end of the year and, mainly next year, with all its consequences for the consumers—consequences which are still further magnified by the fact that the monopoly of production persists without letting up.

Eng. Bohuslav Dvorak, Miscellaneous Merchandise Store, Prague

Our enterprise has approximately 450 apprentices. Part of their training includes practical activities in sales outlets. This year, we have virtually stopped taking on new apprentices. The pressure exerted by parents for us to take on their child, who has done well in school, as an apprentice was and continues to be exceedingly strong. This gives rise to a relatively large group of young people who feel that they have been morally deceived because they do not see any future.

The problem of young apprentices will surely be solved in the future, but, at the present time, society is signing off on age groups which are currently finishing school and are now looking for their first assertion in life. In any event, for the time being, they will not find it in commerce. However, we confront the question as to where the apprentices from privatized sales outlets can be transferred. Proclamations by successful bidders that they will keep the apprentices in their sales outlets are just plain talk. As long as we have somewhere to transfer apprentices, we are solving the problem with an eye to their needs. By the end of this year, however, there will be nowhere to transfer these 450 apprentices. We have not been able to ascertain any indication of any kind of plan at any state level. The burden of explaining the situation to parents and children remains with the enterprise, which does not even have the slightest chance of influencing the solution.

Eng. Evzen Jancarik, Pramen Food Stores, Prague 5

If all the sales outlets are sold, then, with the complete liquidation of the enterprise, it is not possible to create conditions for finishing the apprenticeships of young people through specialized training, which is essentially necessary to the profession of a salesperson. This particularly involves future second-year and first-year apprentices; at the Potraviny Food Stores, Prague 5, this involves approximately 140 children who will in all likelihood not complete their apprenticeships if the private owner refuses to take them over.

Karel Macoun, Odevy Clothing Stores, Usti nad Labem

Another shortcoming involved in the transfer of auctioned property in the sense of Section 11 of Law No. 427/90 is the fact that the working directive issued by the Ministry of Finance, Directive No. V/1-28-145/90, is not taken into account; this directive delays the lowering of the property value and basic capital at the disposal of the enterprise, valued according to its accounting procedures, may not be accomplished by state enterprises until after they receive word that the successful bidder has paid for the property he is taking over. The ministry is obligated to provide this notification for purposes of privatization.

In our case, we received no information from the above ministry, despite the fact that the first series of sales outlets were auctioned effective 23 February 1991.

Premature Disintegration of Enterprises

Commensurate with the declining operations, the number of employees of state commercial enterprises is also declining. However, in ever larger numbers, employees who continue to be needed are also leaving because they do not wish to wait for final liquidation. Enterprises without any real future can, for the most part, no longer find qualified replacements. The question thus arises as to who will actually be liquidating these enterprises. The anticipation of the end of state enterprises and their sales outlets also exerts a woeful effect upon working morale.

Miloslav Stross, Potraviny Centrum Food Stores, Prague

In connection with the anticipated dissolution of the enterprise, it is predominantly the younger employees who are gradually leaving, because they do not see any future employment prospects in this development. During the course of the first quarter, the number of employees declined by 315, including six who left managerial functions in the enterprise directorate and 51 employees who were engaged in commercial operations.

With respect to the operating employees, they are, for the most part, employees having higher qualifications, who have the easiest time seeking new positions in commercial enterprises where they have better prospects than in our state enterprise. We have no qualified replacements for any of these employees. There is virtually no interest in employment being shown on the part of unqualified citizens. As of 1 January of this year, and despite increasing unemployment, the labor offices for Prague 1, 2, and 7 did not recommend a single employee for us to hire.

Eng. Evzen Jancarik, Pramen Food Stores, Prague 5

The fact that the process of privatization involving individual sales outlets is becoming protracted, thanks to restitutions as well as extrajudicial rehabilitations, results in individual employees being substantially insecure with respect to their future employment in the sales outlet, which, naturally, has a negative impact on their work output and, thus, also on the output of the particular sales outlet. What frequently happens is that the store is not sold at auction and that the individual employees have already negotiated for another job or have agreed to leave. In such a case, the enterprise must retain the employees at the sales outlet until the time of another auction, something which causes a situation full of insecurity, a feeling that negotiations by the enterprise with these employees are not serious in nature, results in poor economic results for the sales outlet, and, last but not least, impacts negatively on consumers because the sales outlet has a minimum of inventory and has not ordered replacement merchandise.

Rudolf Schwarz, Pramen Food Stores, Strakonice

Approximately one quarter of the employees in the administrative apparatus have already left or have been given notice and should be replaced in the interest of proper enterprise operation. The acquisition of replacements is fraught with problems and not even citizens looking for work are generally interested in employment in an organization which is most likely facing liquidation.

If there is no change in the sale of all operating units at auction, the continued existence of this enterprise can be estimated at best until the end of the year: As early as the beginning of September, however, the enterprise will find itself in an unsolvable situation, both as to finances and also personnel (specialized workers in both management and also in sales outlets will be leaving).

Pavel Sindelar, Doctor of Jurisprudence, Potraviny Food Stores, Plzen

Even now, when the process of small-scale privatization of commercial organizations is about one-fourth complete, we are keeping the enterprise going with considerable difficulty. A whole series of management employees and other economic employees have left or are in the process of leaving; the situation is particularly complicated in the economic sectors of our plants, which are losing qualified economists, accountants, inventory specialists, etc.

This situation is the result of the fact that, for the time being, the enterprise has no future prospects and by the fact that at least some of the qualified employees have made the transition to a new entity in accordance with Law No. 92/1991 regarding large-scale privatization. We are quite afraid that, briefly stated, there will be no one to take responsible care not only of the final liquidation of the enterprise, but also to handle its social and economic tasks in the final phase of the privatization process.

Eng. Jiri Buchar, Vegetable Markets, Brno

The longer the uncertainty, the hesitation, the lack of concept persists regarding the gradual steps of privatization, the more does the activity of employees of the enterprise become liquidated—apathy grows, as does irritation, fears of the future (this is the first time our employees are experiencing social insecurity of this magnitude)—some management employees have already left (approximately 20 percent), the status quo can be maintained only with difficulty—the opportunity of acquiring a good job given gradual privatization is diminishing, at least during this period.

If the enterprise is to be liquidated (either completely or partially, with part of the enterprise transformed into a so-called privatization project under large-scale privatization), the agony of the remainder of the enterprise must not be long—it is possible to find internal steps designed to artificially hasten the extinction of the enterprise on the enterprise level (management of the enterprise in liquidation can end with an economic loss which can be liquidated by filing a claim against the Fund of National Property).

Eng. Jan Haki, Household Appliances Store, Plzen

Since the beginning of 1991, we have observed that, as a result of the duels between Minister Stepova and Minister Jezek, which are having an inauspicious effect upon the public, there is a certain morale deterioration among some enterprises or commercial work sites. This effect has been exacerbated also by the campaign in the press and on television, encouraged by these two persons, and aimed against state-run commerce as a whole. It is sufficient to characterize the whole by citing the headline

which appeared in OBCANSKY DENIK for 22 March of this year: "The privatization noose is tightening." Among a considerable number of commercial employees, this gives rise to a feeling of hopelessness, lack of confidence in the future, and lack of confidence in the capabilities of our government and the democratic state, skepticism, and, primarily, the loss of future prospects. This is demonstrated at all meetings involving trade union officials. This impasse is strengthened by statements made by some members of some privatization commissions who tell our employees clearly and unequivocally: "Do not get your hopes up, you are all destined for liquidation...." And at that, our enterprise has understood and understands the benefits of privatization and its inevitability since the second half of 1990, but it perceives it in both its images—in the image of small privatization as well as large-scale privatization. However, everything is focused on auctions—in other words, at auctioning existing installations and established commercial units, including their employees (in essence, even people are being auctioned off!). On the other hand, unutilized facilities and pulled-down shutters, where many private entrepreneurs could long since have undertaken something to expand the existing network and to create a competitive environment, continue to be closed.

Eng. Jiri Ascheri, Magnet, Pardubice

Enterprises are being extinguished even now because working morale is at the freezing point and no one is able to compel an employee to do his maximum best if he knows that, in the immediate future, he will receive notice because the enterprise is destined to be liquidated and the store to be auctioned or privatized.

The period of gradual liquidation is long and is being extended for sales outlets which are not auctioned in the first round of the auctions. Employees who find out about the auction are leaving on their own. We must then solve the situation by transferring employees, often from remote localities, which increases costs even prior to the second round of auctions. During that period, a sales outlet which was profitable becomes completely unprofitable as a result of higher costs (interest, wages, rentals, etc.) and declining sales.

Eng. Jaroslav Pavlik, Miscellaneous Merchandise Store, Central Bohemia Kraj

Despite the fact that the problem of employment across the entire commercial sales industry impacts on tens of thousands of qualified employees, there is clearly no interest in dealing with them, nor is there any time to do so. And at that, employees in commercial sales as a whole were and are just as good or, if you wish, just as bad as those in the health industry, in transportation, in education...as well as in the armaments industry. Is our economy so rich and stable that we can afford to transfer qualified sales clerks to agriculture, industry, etc., and direct specialists to replace them, but specialists from a totally different area? Experiences from the auctions which have been accomplished indicate that the majority of successful bidders are only enterprising, but they are not entrepreneurs.

Karel Macoun, Odevy Clothing Stores, Usti nad Labem

This year, 43 percent of the employees of our enterprise which were important to the proper operation of the enterprise gave notice and left.

Captains Are the Last To Leave the Ship

Directors of state retail enterprises have an unenviable task—to liquidate their organizations without having been given an indication that their own livelihoods have any future. Fourteen of the directors who wrote to us (that is to say, 45.2 percent) have no real notion regarding their next job. This is certainly not very stimulating with regard to the execution of their functions.

Eng. Milan Divis, Pramen—Meat Store, Prague

Current practices are such that profit-making operating units are listed for auction whereas money-losing units are being left to the enterprises. In the event that this trend were to become permanent, the enterprises will soon become insolvent, administrative employees will leave the enterprises and there would be no one left to finish up privatization. The director, as the last member of the crew, will not save the situation.

Rudolf Schwarz, Pramen Food Stores, Strakonice

In the event the enterprise is liquidated, I have no idea about my own future employment. I do not have the means to become an entrepreneur, in view of the development of unemployment, I doubt that I shall be able to find a job; other management employees are in a similar situation and that is why they are already now looking for jobs and are losing interest in working for the enterprise.

Zdenek Bartos, Ph.D., Household Appliances Store, Prague

The question of the future employment of directors of enterprises managed by the MOCR [Ministry of Trade and Tourism] of the Czech Republic, which are destined for liquidation by way of small-scale privatization is truly immensely serious because, in accordance with the contract for remunerating directors of organizations, concluded by the MOCR of the Czech Republic with individual directors, the director of the state enterprise is not permitted to privately engage in entrepreneurial activities in the industry which is the object of the activities of the state enterprise directed by him. In other words, he has no opportunity to forge the foundations of a future existence and there is the serious danger that he will, so to speak, miss the train.

As far as I personally am concerned, I received several more or less interesting offers which would, however, require terminating my employment status with the state

enterprise. And even if among my colleagues the view that they do not intend to continue to devote time and effort to employment with a future is beginning to prevail, and they need not be among those who will be blamed for possible problems during liquidation, I have not personally made a definitive decision.

Ivan Polak, Odevy Clothing Stores, Karlovy Vary

I have no intention of continuing to degrade myself to the level to which I am being forced by superior organs. I wanted to use part of the state enterprise to engage in different forms of activity (foreign coparticipation), I wish to continue to operate, even at the price of having to take another path. I was never dependent and am not now dependent upon the position of a director of a state-conserved and deadened enterprise (to the detriment of the state budget and the customers), a position from which one can be recalled at any time by anyone (see the various remarks by the minister addressed to all directors).

Eng. Jaroslav Pavlik, Miscellaneous Merchandise Store, Central Bohemia Kraj

I am currently dealing primarily with problems connected with seeking employment opportunities for employees of privatized sales outlets and surplus administrative employees, as well as the placement of 90 apprentices who will acquire their certificate of apprenticeship next month. Any considerations regarding my own future are, therefore, only marginal and nonspecific.

Solutions

Twenty directors (64.5 percent) have already resigned when their proposals for solutions were constantly rejected so that they are not even engaged in preparing a privatization plan. But all have ideas as to how the transformation of state commercial enterprises could be more effectively accomplished.

Vladimir Marek, Drogerie Drug Stores, Usti nad Labem

I believe that the current approach toward privatization, as it is interpreted by Minister Jezek and his apparatus, is an analogy of a purely ideological approach which was utilized by the previous regime during the nationalization, so to speak, of every shoemaker who was considered to be an embryo of capitalism. The present approach is equally absurdly ideological, but with the difference that any kind of constructive proposal is proclaimed to be a wicked intention of the old structures. I believe that the solution to this situation should involve the stipulation of clear limitations between large-scale and small-scale privatization, a rational evaluation of several sensible proposals, and a pragmatic approach toward solutions which would result in profit for the state treasury and would satisfy the people.

Ivan Polak, Odevy Clothing Stores, Karlovy Vary

Without anybody asking about the notions at various individual enterprises within the framework of state commerce, we were characterized as antiprivatizers, incapable individuals, guardians of our own positions who, within the framework of the liberalization of prices, were still further fattening their purses at the expense of their customers.

Since I was appointed director of the Odevy Clothing Stores, State Enterprise, at Karlovy Vary on 15 October 1990, at the suggestion of the supervisory council, because I clearly indicated my program for privatizing the state enterprise, I was quite ill for a long time from the entire situation. As early as November 1990, following numerous negotiations with foreign firms, I managed to acquire foreign property participation for establishing an enterprise with an immediate deposit of 17 million German marks [DM] of basic capital. Our efforts were focused on retaining a strong skeleton of the firm in the exposed border region of Karlovy Vary, Marianske Lazne, Cheb, Sokolov, Frantiskovy Lazne, a region known for entertaining constant visits by foreign guests, so that services rendered would immediately be at the required level.

Eng. Karel Nebes, Textile and Clothing Store, Prague

In my view, a certain portion of the state commercial organizations could, without the danger which is being used to threaten the population, undergo a different method of privatization than the auction process (a state joint stock company as a prelude to final denationalization). Perhaps this would lead to shortening the phase of early capitalism, free competition—something which I also do not consider to be the best for our customers.

Jiri Kansky, Potraviny Food Stores, Usti nad Labem

Our enterprise has seven variations of the privatization plan. Actual accomplishment would mean implementing at the least two aspects. That is why, generally, these variations develop from two basic principles. One calls for joining the enterprise to regionwide commercial entities within the framework of the Czech Republic; the other envisages the fragmentation of the network into small forms of commercial companies.

Rudolf Schwarz, Pramen Food Stores, Strakonice

For the time being, our enterprise does not have a privatization plan worked out, but does have specifically formulated intentions to transform itself into a joint stock company, including the prescribed letter of intent involving a foreign partner. The establishment of the joint stock company with foreign participation would be rapid, in view of the worked-out intent, and, moreover, it would be possible to stabilize the situation. Otherwise, the gradual disintegration of management can be anticipated, as can the resulting failure to be able to provide basic foodstuffs.

Antonin Jizdny, Doctor of Jurisprudence, Potraviny Food Stores, Brno

The activities handled by our enterprise are necessary to the extent that they should be preserved (not only commercial activities, but also social activities with respect to their consequences)—even if necessarily in a transformed manner. The current practice of privatizing state commerce is accompanied by the danger that the activities of employees will be concentrated upon the mere renewal of the functions of the commercial network which has been established thus far, and with little opportunity to devote attention to the quality of sales.

Miloslav Stross, Potraviny Centrum Food Stores, Prague

At the present time, I am essentially convinced of the necessity of the establishment, during Phase I, of small commercial organizations resulting from part of our original present-day enterprises.

Basically, these organizations should serve as competitors for the newly established private businesses where, given the decline of today's state commerce, there is a danger of an intolerable increase in prices. Today, in many cases, prices at stores operated by private entrepreneurs are already higher than in our enterprise and better services, as had been anticipated, are not always offered.

The breaking up of state commercial enterprises through privatization, as it is ongoing today, will lead us back to the level of the thirties.

Postscript in Conclusion

It is certainly not necessary to agree with the individual opinions. Cumulatively, however, they depict reality, which should not be overlooked. It is a pity that the responsible ministers did not do sooner what HOSPODARSKE NOVINY did.

Text of Revised Compensation Law

91CH0728A Budapest MAGYAR KOZLONY in Hungarian No 77, 11 Jul 91

["Text" of Law No. 25 of 1991 to settle ownership conditions for the partial indemnification of damages caused by the state to the property of citizens; adopted by the National Assembly at its 26 June session]

[Text] Guided by the principle of constitutional statehood and in due regard to society's sense of justice and ability to accept burden, the National Assembly creates the following Law to settle ownership conditions consistent with sales conditions, to establish entrepreneurial security under conditions of a market economy, and to mitigate unjust damages caused by the state to citizens in their property:

SCOPE OF LAW

Paragraph 1

1) Natural persons whose private property has been violated as a result of enforcing legal provisions created by the state after 1 May 1939, as enumerated in Appendixes 1 and 2, shall be entitled to partial indemnification (hereinafter: indemnification).

2) Based on this law, natural persons, as defined in Paragraph 2, whose private property has been violated as a result of enforcing legal provisions created after 8 June 1949, as enumerated in Appendix 2, shall be entitled to indemnification.

3) Indemnification of damages caused by the enforcement of legal provisions created between 1 May 1939 and 8 June 1949, as enumerated in Appendix 1, shall take place pursuant to the provisions of a separate law to be enacted by 30 November 1991, in a manner consistent with the principles defined in this law.

Paragraph 2

1) The following persons shall be entitled to indemnification:

a) Hungarian citizens,

b) Persons who were Hungarian citizens when they suffered damages, [or]

c) Persons who suffered damages in conjunction with the deprivation of their Hungarian citizenship, [and]

d) Non-Hungarian citizens who were permanent residents of Hungary as of 31 December 1990.

2) If the person entitled to indemnification [hereinafter: entitled person] defined in Section (1) above (hereinafter [also]: former owner) is deceased, the former owner's descendant, or in the absence of a descendant, the former owner's spouse, shall be entitled to indemnification.

3) Descendants shall be entitled to indemnification exclusively after the deceased ascendant and only to the extent of the ascendant's entitlement, divided in equal portions among the descendants. No indemnification shall be made for a deceased descendant's share of property if such descendant has no descendant.

4) The surviving spouse shall be entitled to indemnification if there is no descendant, provided that such spouse was married to and lived with the former owner when the former owner suffered the injuries and at the time of the former owner's death.

5) A person whose claim has already been settled in the framework of an international agreement shall not be entitled to indemnification.

DETERMINING THE EXTENT OF DAMAGES

Paragraph 3

1) The extent of damages shall be defined in the form of flat rates. Appendix 3 contains the flat rates applicable to certain types of property.

2) The extent of damage involving arable land shall be determined pursuant to the provisions of Paragraph 13.

3) The flat rates mentioned in Sections (1) and (2) shall include the value of movable property.

4) Only one type of indemnification shall be due after each piece of property, but the owner shall have an opportunity to choose between various types of indemnification.

EXTENT OF INDEMNIFICATION

Paragraph 4

1) That part of the aggregate damages determined pursuant to the provisions of Paragraph 3 shall be the subject of indemnification which is derived as a result of calculations based on the table provided in Section (2) below, rounded to the nearest one thousand forints, and which does not exceed the amount specified in Section (4) below.

2) Extent of indemnification:

Extent of Damage	Extent of Indemnification
0-200,000 forints	100 percent
200,001-300,000 forints	200,000 forints plus 50 percent of the amount over and above 200,000 forints
300,001-500,000 forints	250,000 forints plus 30 percent of the amount over and above 300,000 forints
500,001 forints and above	310,000 forints plus 10 percent of the amount over and above 500,000 forints

3) The amount of indemnification per piece of property and per former owner shall not exceed 5 million forints.

4) In case of multiple owners the extent of indemnification shall be determined based on the proportionate share of ownership held by the several owners.

METHOD OF INDEMNIFICATION

Paragraph 5

1) An indemnification voucher shall be issued for the amount of indemnification. All indemnification vouchers issued to an entitled person shall bear the same serial designation. (Paragraph 6 Section (2)).

2) The indemnification voucher shall be redeemable on sight, shall be transferable and shall constitute a security whose value corresponds with the amount of indemnification and whose face value shall constitute a demand against the state.

3) An indemnification voucher shall earn interest for a period of three years beginning on the first day of the calendar year quarter in which it was issued. The rate of interest shall be 75 percent of the central bank's basic interest rate which prevails at any given point in time.

4) Irrespective of the date of issue, interest shall accrue beginning on the effective date of this law.

5) The face value of an indemnification voucher shall be increased by adding the amount of interest calculated on the basis of an interest rate publicized monthly by the National Damage Claims Settlement Office, and shall be credited on the first days of subsequent months.

Paragraph 6

1) An indemnification voucher shall contain the following:

a) the designation "indemnification voucher";

b) the face value of the voucher and a reference to crediting interest (Paragraph 5 Section (5));

c) a description of the method in which the indemnification voucher may be used (Paragraph 7);

d) the date and place of issue;

e) designation of the serial issue (Section (2)) and a serial number;

f) the signature of the director of the National Damage Claims Settlement Office and

g) the denomination of the voucher (1,000 forints, 5,000 forints, 10,000 forints).

2) Indemnification vouchers shall bear serial issue designations A through J. Individual series shall be issued in equal quantities and at an equal pace.

3) The issuance and sale of indemnification vouchers shall be governed by the provisions of this law.

Paragraph 7

1) The state shall guarantee the ability of holders of indemnification vouchers to redeem such vouchers pursuant to conditions provided in this law:

a) for the purchase of pieces of property, stock and business shares sold in the course of privatizing state property, and

b) for the acquisition of arable land property.

2) An entitled person may use indemnification vouchers to which he is entitled under this law as method of payment whenever state owned housing units, or, following the promulgation of this law, state owned housing units transferred free of charge into the ownership of autonomous local governmental bodies are sold. In such transactions indemnification vouchers shall be exchanged at face value.

3) The face value of indemnification vouchers shall be regarded as a person's own financial resource whenever a person borrows funds pursuant to the provisions of the law concerning the small business ["Existence"] fund or when taking advantage of privatization loans.

4) At the request of an entitled person, annuity payments may be provided during the entitled person's life in exchange for indemnification vouchers and in the framework of social security pursuant to separate law.

Paragraph 8

1) If so recommended by the State Property Agency [AVU], the government may suspend purchases in exchange for indemnification vouchers (Paragraph 7 Section (1)(a)) each year relative to a certain series of, or all indemnification vouchers in circulation. The period of suspension shall not exceed six months per year, and suspensions may be made only until 31 December of the fifth full calendar year starting in the year when the indemnification vouchers are issued. Thereafter the use of indemnification vouchers for the purpose of making purchases shall not be restricted.

2) A given series of indemnification vouchers may be suspended for identical periods of time as viewed in two year averages, and the series of indemnification vouchers to be suspended shall be chosen in a public lottery drawing. The time period in which indemnification vouchers earn interest shall be extended by the time period during which a given series of indemnification vouchers was suspended.

3) Indemnification vouchers shall be accepted as payment for at least 10 percent of the value of assets of a state enterprise in the process of transforming into a business organization—as the value of such assets is evidenced by the financial statement of such state enterprise, and of the value of state owned assets sold directly. The AVU shall determine the extent to which indemnification vouchers may be accepted as payment for such property over and above the 10 percent minimum limit.

4) Indemnification vouchers acquired by a cooperative pursuant to the provisions of Paragraph 26 shall be accepted as payment to the extent of at least 20 percent of the assets of state food industry enterprises in the process of transforming into business organizations—as the value of such assets is evidenced by the financial statements of such enterprises.

5) In the event that the AVU board of directors renders a decision concerning the direct sale to a single owner of a state enterprise in the process of transforming into a business organization or in regard to a piece of property owned by the state, the AVU may deviate from the minimum redemption levels specified in Sections (3) and (4) above.

Paragraph 9

A person entitled to indemnification shall enjoy prepurchase rights whenever the AVU or a unit of local government sells that person's former property. Exceptions to this rule are as follows: Cases governed by Law No. 74 of 1990; instances when rental housing units owned by a local government or by the state are purchased by their present occupants; situations in which the property pertains to a right having pecuniary value (e.g. corporate, membership rights); or situations in which the AVU sells membership rights in a corporation which acquired such property or was established with the contribution of such property.

PROCEDURAL RULES

Paragraph 10

1) With respect to cases arising under the authority of this law the county (Budapest) damage claims settlement office shall act as the authority of the first instance, and the National Damage Claims Settlement Office (hereinafter jointly: Office) as the authority of the second instance.

2) Authorities charged with the protection of the natural environment shall participate in the workings of the county (Budapest) Office, and the Ministry of Environmental Protection and Regional Development in the workings of the national Office as the expert authorities of the first instance.

3) Final determinations rendered by the Office may be reviewed in court. Courts shall also be authorized to change the Office's determinations subject to challenge. Proceedings shall be governed by rules provided in Chapter 20 of the Code of Civil Procedure.

Paragraph 11

1) Entitled persons may submit petitions for indemnification within 90 days from the effective date of this law to the county (Budapest) Office having jurisdiction.

2) In the event that the property which serves as the basis for an indemnification claim includes real estate, the county (Budapest) office having jurisdiction at the place where the real estate is located shall have jurisdiction.

3) The Budapest Office shall have jurisdiction to proceed if the entitled person permanently resides abroad.

4) In case several county (Budapest) offices have jurisdiction (positive jurisdictional conflict), the county (Budapest) office chosen by the entitled person shall proceed with respect to all of the claimant's property.

Paragraph 12

1) Petitions for indemnification shall be submitted in writing. Failure to submit such petition within the deadline specified in Paragraph 11 Section (1) shall constitute the surrender of the right to file a claim.

2) All documents or copies of documents which verify entitlement to property shall be attached to the petition. Lacking such documentation reference shall be made to other evidence of ownership.

3) In the event that a petition is filed in a manner inconsistent with the provisions of Section (2) above, the Office shall return such petition to the entitled person by simultaneously granting an extension of time to file the petition together with the missing data. In the event that an entitled person returns the petition in response to the Office's request to provide additional data without such additional data, the Office shall judge the petition based on the available data.

4) The county (Budapest) Office shall provide a summary notice to the affected business organizations within two months from the deadline established in Paragraph 11 Section (1) concerning the Gold Crown value of claims filed against arable land owned or used by such business organizations and acquired in a manner subject to the authority of this law.

5) The Office shall proceed pursuant to the rules provided in Law No. 4 of 1957 concerning general rules of state administrative procedure, except for the following:

a) the deadline for action shall be six months from the date of receipt of petition. This deadline may be extended by the head of the Office only once for a period no longer than three months;

b) proceedings shall be suspended if in his petition, or at the request of the Office the claimant verifies that he has initiated necessary court or other official proceedings to establish ownership rights which serve as a foundation for his claim.

6) Proceedings initiated before the Office on the basis of this law shall be exempt from the payment of dues.

SPECIAL RULES PERTAINING TO ARABLE LAND

Paragraph 13

1) Whenever a claim involves arable land, the extent of damage shall be determined based on the cadastral net income of the arable land (hereinafter: Gold Crown value), so that the value of one Gold Crown equals 1,000 forints. Relative to forest land the quadruple of this Gold Crown value shall be considered as the basis of calculations.

2) If a former owner received land in exchange for his arable land, the extent of damage shall be established on the basis of the applicable Gold Crown value differential.

3) In the event that Gold Crown data pertaining to part of the land cannot be found in earlier documents, the Gold Crown value shall be determined on the basis of the cadastral net income data of the town (city) which exercises authority over the area where the land is located. Calculations shall be made based on the average Gold Crown data determined at the close of the years 1982 through 1985.

4) In the event that the whole or part of the original land was recorded as an area not under cultivation or as a fish pond, the extent of damage shall be determined on the basis of the Gold Crown value established for the lowest quality cultivated plough land in the surroundings of the town (city) which exercises authority over the area where the land is located.

Paragraph 14

If the former owner received any kind of compensation (e.g. redemption price) for his arable land, the amount of such compensation shall be deducted from amount of damage to be indemnified calculated pursuant to the provisions of Paragraph 4.

Paragraph 15

1) In order to provide indemnification in the form of arable land, the cooperative or its legal successor (hereinafter: cooperative) shall designate the arable land area it owns or uses as of the day when this law is promulgated, and which it acquired on the basis of legal provisions enumerated in Appendix 2. Such designation shall take place within 30 days from date of receipt of the notice described in Paragraph 12 Section (4) pursuant to the provisions of Paragraphs 16-18. In the event that a cooperative fails to comply with the obligation to designate the arable land area referred to above, the entire arable land area acquired on the basis of this law [as published] and owned or used by the cooperative shall be regarded as designated arable land.

2) Entitled persons shall have a right to purchase arable land designated pursuant to Section (1) above.

Paragraph 16

A cooperative shall designate arable land having a Gold Crown value of at least the value shown in the notice described in Paragraph 12 Section (4), so that the average Gold Crown value of the designated land corresponds with the average Gold Crown value of the cooperative's other lands.

Paragraph 17

1) A land bank shall be established in the course of designating arable land for the purpose of transferring land to the ownership of members and employees of cooperatives, and of employees of state farms. The size of the land bank shall be determined by allocating land of an average value of 30 Gold Crowns to each member of a cooperative, and of 20 Gold Crowns to each employee of a cooperative or a state farm. The Gold Crown value of the land bank thus calculated shall not exceed 50 percent of the Gold Crown value of arable land owned by the cooperative or managed by the state farm.

2) For purposes of calculating the size of the land bank mentioned in Section (1) above, current members of cooperatives, or employees of cooperatives or state farms whose membership or employment relationship has already existed on 1 January 1991, and whose agricultural land property is smaller than the size of property defined in Section (1) above shall be regarded as members of cooperatives or as employees of cooperatives or state farms.

Paragraph 18

1) Arable land to be released shall be designated outside of protected natural reservations.

2) In the event that the area available outside of protected natural reservations is not sufficient for purposes of designation, plough lands, gardens, orchards, vineyards or forests owned by the cooperative, and cultivated protected natural areas may also be designated. The exceptions in this regard are: national park areas and areas governed by international agreements or subject to intensive protection.

3) The concurrence of the authority charged with the protection of the natural environment shall be obtained before designating protected natural areas.

4) If in the course of indemnification a protected natural area is released or if some other restriction on land use already exists, the persons participating in the auction (Paragraph 21.) shall be so informed in writing.

5) These provisions shall also apply with respect to areas that are planned to be classified as protected areas.

6) Land areas protected as historical sites, originally not belonging, or not adjacent to agricultural buildings or structures, which were originally not regarded as arable land shall not be designated.

Paragraph 19

Simultaneously with and after the auctioning of cooperative lands the state shall also auction state owned land. The Gold Crown value of land thus auctioned shall amount to at least 20 percent of the Gold Crown value of land auctioned by cooperatives.

Paragraph 20

1) Arable land designated pursuant to the provisions of Paragraphs 15-19 shall be sold at auction to entitled persons. If the land of the former owner is state owned land and was transferred into the common use of a cooperative, the cooperative may also auction state owned arable land under the common use of the cooperative.

2) The initial and final dates for auctions shall be determined by the county (Budapest) Office having jurisdiction in the area where the cooperative is headquartered, in due regard to the evaluation of petitions for indemnification.

Paragraph 21

1) The following entitled persons may participate in the auction with indemnification vouchers to which they are entitled:

a) persons whose expropriated arable land is presently owned or used by the cooperative;

b) members of the cooperative as of 1 January 1991 who continue to hold such membership at the time of the auction;

c) permanent residents as of 1 June 1991 of the municipality or city in which the auctioning cooperative's arable land is located.

2) The official exercising state administrative authority in the county (Budapest) Office having jurisdiction shall conduct the auction, and a notary public shall attest to the legality of the auctioning process.

Paragraph 22

1) Participants at the auction shall bid by stating forint values corresponding to one Gold Crown value. The upset price shall be 3,000 forints per Gold Crown. If there are no bids at or above the upset price, the upset price may be lowered gradually, but to no less than 500 forints per Gold Crown value.

2) The auctioning must be conducted pursuant to the provisions of the implementing decree. In a manner consistent with their bid, successful bidders may exercise their right to purchase the part of land they selected from the cooperative's arable land defined in Paragraphs 15-18. Owners of detached farms entitled to indemnification shall enjoy a prepurchase right regarding the arable land surrounding their detached farms.

Paragraph 23

1) The right to purchase defined in Paragraph 22 Section (2) may be exercised by a person entitled to do so provided that such person commits himself to use the arable land for agricultural purposes and not to withdraw the land from agricultural production for a period of five years.

2) Arable land acquired by exercising the right to purchase shall be taken away from the owner without indemnification and shall be sold at auction, in the event that such owner reneges on the commitment made pursuant to Section (1) within five years from the date of acquiring the land.

3) If arable land acquired by exercising the right to purchase is sold within three years from the date of acquisition, proceeds of the sale, offset by the amount of investment to increase the value of such arable land, shall be regarded as income from the standpoint of the owner's personal income taxes in the year when the arable land was sold. The sales value used for calculating official dues shall be regarded as the amount of proceeds.

Paragraph 24

1) An entitled person as defined in Paragraph 21 who agrees to register as an agricultural entrepreneur with the tax authority within 30 days from the date of the auction may file a claim for the difference between the extent of damage defined pursuant to Paragraph 3 and the extent of indemnification defined pursuant to Paragraph 4 This amount shall be paid as agricultural entrepreneurial support for the purpose of purchasing arable land at auction. The combined amount of indemnification and support shall not exceed 1 million forints.

2) If a recipient of support payment defined in Section (1) above fails to register as an agricultural entrepreneur within the time limit specified, or if the tax authority determines within five years from the date when the arable land was purchased that the recipient does not conduct actual agricultural entrepreneurial activities, the support payment shall be reclassified into a loan and shall become due immediately.

3) A five year lien in favor of the state and a prohibition to sell shall be recorded on land acquired by an indemnified person with the use of support funds mentioned in Section (1) above. The lien in favor of the state and the prohibition to sell shall be cancelled if the indemnified person repays the amount of support within five years to the tax authority.

4) At the request of an entitled person the Office having jurisdiction shall issue a voucher for the amount of agricultural entrepreneurial support. Such vouchers may be used as payment at auctions in a manner similar to indemnification vouchers. A cooperative may request the county (Budapest) Office having jurisdiction in the place where the cooperative is headquartered to issue indemnification vouchers in exchange for agricultural

entrepreneurial support vouchers acquired by the cooperative from entitled persons in the course of auctioning land owned by the cooperative. Support vouchers may be exchanged only to the extent of the actual amount expended for the purchase of land.

Paragraph 25

1) An entitled person shall reimburse the entity which sells the land at auction for the incremental value of the arable land purchased which is not expressed in Gold Crown value, as offset by the amount of state support.

2) Expenses incurred in conjunction with the assignment of arable land, the development of the land as an independent piece of real property and the cost of recording such real property shall be paid by the buyer. The acquisition of property shall be exempt from the payment of official dues.

Paragraph 26

Indemnification vouchers acquired by a cooperative in exchange for arable land designated pursuant to Paragraphs 15-18 and sold at auction may be used by the cooperative in a manner consistent with the provisions of Paragraph 7 Section (1). This provision shall not apply to indemnification vouchers received by a cooperative for the sale of state owned land used by the cooperative.

Paragraph 27

1) State farms shall designate and auction arable land owned by the state and managed by the state farm pursuant to the provisions of Paragraphs 15-26.

2) Any entitled person may use the indemnification vouchers to which he is entitled when state owned arable land in addition to arable land designated by state farms pursuant to the provisions of Paragraph 15 Section (1) is auctioned. Such auctions shall be governed by the provisions of Paragraphs 22-23 and 25.

Paragraph 28

Indemnification vouchers obtained by cooperatives and state farms in the course of auctions in exchange for the sale of state owned arable land shall be forwarded to the county (Budapest) Office having jurisdiction within 30 days.

CLOSING PROVISIONS

Paragraph 29

The cabinet shall provide for the implementation of this law, including the establishment of the Office and of rules for the functioning of the Office.

Paragraph 30

This law shall take effect 30 days after its promulgation, but the provisions of Paragraphs 7 Section (2) and Paragraph 29 shall be applied beginning on the day of promulgation.

[Signed]: Arpad Goncz, President of the Republic
[Signed]: Gyorgy Szabad, President of the National Assembly

APPENDIX 1

To Law No. 25 of 1991

1939

1) Act No. 4 of 1939 concerning the limitation of Jews gaining ground in public life and in the economy.

1940

2) Office of the Prime Minister Decree No. 3350/1940.ME supplementing the implementing rules of landed estate policies contained in Act No. 4 of 1939.

1942

3) Act No. 15 of 1942 concerning agricultural and forest real property owned by Jews, and Office of the Prime Minister Decree No. 3600/1943.ME implementing the Act.

4) Minister of Agriculture Decree No. 550,000/1942.FM concerning the conveyance of small real property owned by Jews.

1943

5) Office of the Prime Minister Decree No. 4070/1943.ME restricting the sale of animals, and farm implements and buildings related to real property governed by the provisions of Act No. 15 of 1942 concerning agricultural and forest real property owned by Jews.

1944

6) Office of the Prime Minister Decree No. 1600/1944.ME concerning the reporting and sequestering of property owned by Jews.

7) Office of the Prime Minister Decree No. 1830/1944.ME concerning the recording and preservation of sequestered works of art belonging to Jews.

8) Office of the Prime Minister Decree No. 2650/1944.ME providing rules relative to certain issues concerning property owned by Jews.

9) Minister of Commerce and Transportation Decree No. 50,550/1944.KKM concerning the sequestering of merchandise inventories and fixtures related to stores owned by Jewish merchants.

1945

10) Act No. 6 of 1945 providing statutory effect to Office of the Prime Minister Decree No. 600/1945.ME concerning the termination of the large estate system and the provision of land to people engaged in agricultural work.

11) National Government Decree No. 12,330/1945.ME concerning the relocation of the German population of Hungary to Germany.

12) Minister of Agriculture Decree No. 2,400/1945.FM concerning the allocation of housing lots and public purpose ["interest"] lots.

13) Minister of Agriculture Decree No. 5,600/1945.FM further implementing Office of the Prime Minister Decree No. 600/1945.ME concerning the termination of the large estate system and the provision of land to people engaged in agricultural work.

1946

14) Act No. 9 of 1946 concerning the settlement of people and to expedite the conclusion of land reform.

15) Act No. 13 of 1946 concerning the nationalization of coal mining.

16) Act No. 20 of 1946 concerning the transfer of power plants and long distance power lines owned by electrical works into state ownership, and other provisions related to electrical energy management.

1947

17) Act No. 5 of 1947 containing certain provisions needed for the conclusion of land reform.

18) Act No. 19 of 1947 relative to pious caring for Soviet-Russian military memorials and heroes' cemeteries.

19) Act No. 30 of 1947 relative to transfer into state ownership of the Hungarian owned stock of financial institutions operating in the form of stock corporations under Curia No. 1 of the Hungarian National Bank and the Central Corporation of Banking Companies.

20) Cabinet Decree No. 12,200/1947 amending, supplementing and summarizing Office of the Prime Minister Decree No. 12,330 of 1945.ME concerning the relocation of the German population of Hungary to Germany, and other related decrees.

1948

21) Act No. 13 of 1948 concerning the nationalization of bauxite mining and aluminum production.

22) Act No. 25 of 1948 concerning the transfer of certain industrial enterprises into state ownership.

23) Act No. 26 of 1948 concerning the deprivation of Hungarian citizenship and the confiscation of property of certain persons staying abroad.

24) Act No. 33 of 1948 transferring the function of maintaining non-state schools to the state, the related property into state ownership, and the personnel of such schools into state service.

25) Act No. 60 of 1948 concerning Hungarian citizenship.

26) Cabinet Decree No. 10,010/1948 concerning the use of agricultural industrial plants related to real property redeemed or confiscated in the course of implementing the reform of landed estates.

27) Cabinet Decree No. 12,770/1948 concerning the termination of the special legal class of lots awarded with the title "Vitez", lots awarded for military service, family estates and protected estates.

28) Minister of Agriculture Decree No. 22,140/1948.FM governing certain issues relative to the implementation of landed estate reform.

29) Minister of Agriculture Decree No. 22,900/1948.FM concerning the implementation of the property provisions contained in Cabinet Decree No. 12,200/1947 concerning the relocation of the German population of Hungary to Germany.

30) Cabinet Decree No. 13,390/1948 (5 January 1949) concerning the transfer of public use and limited public use narrow gauge railroads into state ownership.

1949

(To 8 June 1949)

31) Act No. 1 of 1949 concerning the transfer of ownership of real property accommodating Soviet military memorials and heroes' cemeteries to (municipalities) cities.

32) Act No. 7 of 1949 concerning the termination of estates in fee entailed, and Minister of Industry Decree No. 33,000/1949.IM concerning implementation of the Act.

33) Cabinet Decree No. 450/1949 (15 January) transferring ownership of certain industrial railroads to the state treasury.

34) Cabinet Decree No. 690/1949 (22 January) concerning the use of forest industrial plants attached to real property that changed in the course of implementing land reform, or real property which has been confiscated.

35) Cabinet Decree No. 1,310/1949 (12 February) concerning a requirement to report persons departed from the territory of the country without permission, and the handling of property they left behind.

36) Cabinet Decree No. 2,050/1949 (5 March) concerning the review of the technical condition of threshing machines and the use of certain threshing machines.

APPENDIX 2

To Law No. 25 of 1991

1949

1) Law No. 24 of 1949 concerning the settlement of certain issues related to the conclusion of land reform and settlement.

2) Decree with the Force of Law No. 3 of 1949 concerning the partial replotting of agricultural and forest management real estate.

3) Decree with the Force of Law No. 20 of 1949 concerning the transfer of certain industrial and transportation enterprises to state ownership.

4) Cabinet Decree No. 4091 of 16 June 1949 concerning the offering of agricultural real property and equipment related to such property.

5) Cabinet Decree No. 4096 of 18 June 1949 concerning the performance of funeral functions in individual cities and towns by municipal enterprises.

6) Cabinet Decree No. 4153 of 29 July 1949 concerning the review and assignment of saw mills, and in regard to amending Cabinet Decree No. 470 of 15 January 1949, insofar as plants sequestered pursuant to the provisions of Paragraph 4 Section (4) were subsequently transferred into state ownership without indemnification.

7) Cabinet Decree No. 4162 of 26 July 1949 concerning the increased prevention of illegal border crossing and smuggling across the border in certain areas, insofar as real property transferred to the state for use by the state pursuant to Paragraph 1 Section (2) was subsequently transferred into state ownership without indemnification.

8) Council of Ministers Decree No. 4314 of 13 November 1949 concerning the facilitation of the merger of certain cooperatives.

1950

9) Decree with the Force of Law No. 25 of 1950 concerning transfer of public pharmacies to state ownership.

10) Council of Ministers Decree No. 284 of 10 December 1950 concerning the offering of real estate owned by industrial workers, laborers, miners and transportation workers to the state.

11) Minister of Agriculture Decree No. 16100 of 23 August 1950 amending Decree with the Force of Law No. 3 of 1949 concerning the partial replotting of agricultural and forest management real property, providing for the implementation of the Decree with the Force Law in 1950.

1951

12) Council of Ministers Decree No. 94 of 17 April 1951 providing new procedural rules for the confiscation of property, insofar as sequestering and the confiscation of property was ordered by way of a notice concerning illegal departure from Hungary issued by the police (Council of Ministers Decree No. 93 of 17 April 1951).

13) Council of Ministers Decree No. 101 of 29 April 1951 concerning the registration and transfer of inhabitable premises used for other purposes, as well as Council of Ministers Decree No. 165 of 7 September 1951 supplementing and amending these provisions, insofar as the premises utilized were subsequently transferred to state ownership without indemnification.

14) Council of Ministers Decree No. 145 of 24 July 1951 concerning the replotting of agricultural and forest management real property in producer cooperative towns (cities).

1952

15) Decree with the Force of Law No. 4 of 1952 concerning the transfer of certain buildings into state ownership, except for those exempted from under transferring building property to the state based on the provisions of Decree with the Force of Law No. 28 of 1957.

1956

16) Decree with the Force of Law No. 15 of 1956 concerning land settlement and replotting.

1957

17) Law No. 5 of 1957 concerning citizenship.

18) Decree with the Force of Law No. 32 of 1957 concerning the proprietary situation of persons who illegally left for abroad after 23 October 1956, except for pieces of property whose ownership was transferred to family members entitled to inherit such property pursuant to Paragraph 3.

19) Decree with the Force of Law No. 52 of 1957 amending Decree with the Force of Law No. 10 of 1957 concerning the settlement of ownership and use conditions related to agricultural real estate.

1958

20) Decree with the Force of Law No. 13 of 1958 amending Decree with the Force of Law No. 28 of 1957 concerning certain issues related to buildings transferred to state ownership.

1959

21) Decree with the Force of Law No. 24 of 1959 concerning the establishment of areas suitable for large scale agricultural farming plants.

1960

22) Decree with the Force of Law No. 22 of 1960 supplementing and amending Decree with the Force of Law No. 24 of 1959 concerning the establishment of areas suitable for large scale agricultural farming plants.

1965

23) Decree with the Force of Law No. 20 of 1965 amending the rules for offering land.

24) Decree with the Force of Law No. 21 of 1965 supplementing Decree with the Force of Law No. 22 of 1960.

1967

25) Law No. 4 of 1967 concerning the further development of land ownership and land use.

1971

26) Cabinet Decree No. 31 of 5 October 1971 concerning certain issues pertaining to lots owned by citizens.

27) Cabinet Decree No. 32 of 5 November 1971 concerning certain issues pertaining to housing and recreational property owned by citizens.

1987

28) Paragraphs 30-32 and 39 Section (4) of Law No. 1 of 1987 concerning land.

APPENDIX 3

To Law No. 25 of 1991

Average values of various types of property shall be taken into consideration when determining the extent of damages suffered:

a) On the basis of the area of real estate (housing units, shops, workshops, vacant lots in built-in areas):

[Location]	Forint/Square Meter Value as a Basis of Indemnification
In Budapest pursuant to present rental zones	
Zone 1 (+ 25%)	2,000
Zone 2 (+ 10%)	1,500
Zone 3 (normal)	1,000
In cities pursuant to present administration classification	800
In other settlements	500
Vacant building lots in built-in areas	200

b) Relative to firms, depending on the number of permanent employees

Number of Employees	Value To Serve as a Basis for Indemnification (in thousands of forints)
0 - 2	150
3 - 5	500
6 - 10	700
11 - 20	1,000
21 - 50	1,700
51 - 100	2,500
100 and more	5,000

LEGISLATIVE INTENT

To Law No. 25 of 1991

GENERAL INTENT

On several occasions during the past five decades, in the course of changing periods of history, various state actions infringed upon the private property of citizens.

In conjunction with the system change, former owners expressed a strong need to remedy former injuries and private property damages they unfairly suffered. It is the moral duty of a state which recognizes and protects private property to take action and provide financial indemnification to those who suffered injuries in their property.

In the interest of developing appropriately settled ownership relations in a modern market economy, and to discontinue uncertainty relative to the ownership situation, the state intends to remedy the earlier private property injuries suffered not by returning (reprivatizing) the objects that constitute property, but by providing partial property indemnification to former owners.

This solution is justified by the nation's present ability to assume a burden, as well as by the circumstance that in the past not only property owners, but also individuals who did not own property suffered injuries. The financial implications of these injuries continue to affect their present living conditions. These cannot be remedied even on a partial basis. For this reason, indemnification is limited both in time and extent.

The Law declares a right to be indemnified for injuries suffered on the basis of legal provisions promulgated after 1 May 1939. Rules for indemnification for injuries suffered after 8 June 1949 are established in the framework of this Law, while injuries suffered prior to that date will be remedied on the basis of a law to be created by a certain date, using principles identical to those contained in this Law.

In order to facilitate calculations and to avoid disputes arising from such calculations the Law defines the original (at the time of expropriation) amount of damages suffered in the form of flat rates. Only a small group of people can receive full indemnification. This is so in part because of the flat rate calculation of damages, but in addition to that, it was also appropriate to impose a limitation as a result of which the rate of indemnification declines as the value of expropriated property for which indemnification is claimed increases. Maximum limits for indemnification on a per person and per piece of property basis also had to be established.

Indemnification will be made in the form of interest bearing negotiable securities and not in the form of cash because even the limited amount to be paid out is huge, and because the worth of indemnification must be protected against inflation.

Special rules for arable land were both justified and necessary. There is a limited supply of arable land, and arable land has an income potential that differs from average property and constitutes property of a peculiar legal character. The calculation of damages suffered in, and indemnification to be paid for arable land property demanded a solution different from what could be applied to property in general. By establishing a requirement that arable land subject to indemnification be sold at auction to entitled persons, the Law provides a solution which permits the law of supply and demand to prevail when indemnification vouchers are exchanged. This solution also encourages the evolution of the market value of arable land.

SECTION BY SECTION ANALYSIS

Paragraph 1

Paragraph 1 of the Law declares that the state commits itself to indemnify natural persons who suffered injuries in their private property.

The Law intends to discharge obligations incurred as a result of injuries inflicted in different periods of history, based on various ideological and political principles and in various ways, in due regard to the situation that has evolved after the passage of a long period of time—including some irreversible changes, "renewed, by applying uniform principles under new legal authority, to a new extent and under new conditions *(novatio)*."

A rational limit had to be established regarding the retroactive effect of the obligation. Although injustices also occurred in prior history, the remedying of these today would be both impossible and unnecessary.

It is the intent of the Law to remedy injuries suffered as a result of legal provisions created after 1 May 1939.

A number of factors justify the establishment of that date as the threshold. On the one hand, this threshold ensures that persons who still live among us and who once suffered injuries, and who, together with their direct descendants, still suffer the consequences of those injuries receive indemnification to which they are entitled. At the same time, there is no realistic possibility to remedy possible injustices suffered by members of two prior generations. In contrast, it is still possible to review and to formulate retroactive judgment concerning the era that began on 1 May 1939. The so-called second Jewish law promulgated on 5 May 1939 was the first legal provision to arbitrarily violate on an ideological basis the inviolability of private property and the principle of equality among citizens.

In addition to establishing a state obligation to indemnify damages suffered beginning on that day, the Law provides for the phased implementation of indemnification, in due regard to the country's economic situation and limited performance capacity. Consistent with this principle, injuries suffered on the basis of legal provisions created after 8 June 1949 will be remedied in the first phase. The National Assembly elected on the basis of antidemocratic processes in 1949 convened on that day. Legal provisions created in that period no longer contained the usual nationalization measures, but instead aimed for the systematic liquidation of private property and constituted politically motivated acquisitions of property with the character of reprisals on part of the state.

Injuries suffered on the basis of legal provisions created during the period prior to 8 June 1949 will be remedied by a law to be created by 30 November 1991, based on principles identical to those contained in this Law. Appendix 1 of the Law enumerates the legal provisions created in that era. These will serve as the basis for indemnification.

As its title indicates, the Law applies to the partial indemnification of damages caused to the property of natural persons, citizens [as published], and does not settle damages caused to the property of legal entities. This is so because on the one hand, a majority of these legal entities can no longer be found, while on the other hand separate laws settle property claims established by a certain group of legal entities, such as autonomous local governmental bodies, churches and social security.

Paragraph 2

Only natural persons may establish claims for indemnification provided under this Law. When this Law takes force, an entitlement to receive indemnification vouchers may be established by Hungarian citizens, just as by persons who by now have become foreign citizens, but who were Hungarian citizens at the time the injuries were suffered, and further: by persons who prior to suffering of injuries were stripped of their citizenship, and by persons who do not hold Hungarian citizenship but who were permanent residents of Hungary as of 31 December 1990. The latter provision recognizes Bulgarians, Poles, etc. who retained their foreign citizenship, but who have lived in Hungary for decades and suffered injuries identical to those suffered by Hungarians.

The Law provides for the enforcement of an indemnification claim not only by persons directly affected as a result of the application of the enumerated legal provisions, but also to the descendants of owners, or lacking descendants, to the former owners' surviving spouses. In regard to the indemnification of a former owner's descendant or surviving spouse, however, the inheritance rules of the Civil Code of Laws could not be applied for obvious reasons, because property taken away from a former owner prior to his death could not be made part of his bequest. Further, applying legal provisions pertaining to inheritance—rules pertaining to ancestral property, widows' rights, inheritance based on wills, etc. in particular—would expand the constituency entitled to indemnification—a matter voluntarily undertaken by the state—to an extent that it would exceed the present load bearing capacity of the country. This would also

endanger the rapid achievement of the goal established as part of the Law: the settlement of ownership conditions.

Considering the above, the law establishes *sui generis* rules, which extend to descendants based on considerations of fairness, but only in equal proportions among the descendants, to the extent to which their ascendant would have been entitled, and provided that a descendant cannot claim the share of a deceased descendant of the same generation. Thus, for example, if one of the descendants of a former owner deceased without leaving further descendants, the still living descendant(s)' entitlement to indemnification does not extend to the share of the deceased descendant.

Paragraph 3

In order to determine the amount of indemnification due on the basis of the Law, it is necessary to determine as a first step the extent of damage suffered.

The Law defines the extent of damage in flat rates with respect to the three types of property in which the application of the above mentioned legal provisions characteristically caused injury. Thus the Law provides flat rates for damages suffered in real property, enterprises and arable land. Practical considerations guided the establishment of flat rates for determining the extent of damage caused. It was apparent that by now the exact extent of damage incurred 30-40 years ago could not be determined, or if it could, such calculations would be highly debatable. The inclusion of the value of movable property related to a given real property, enterprise or arable land as part of the flat rate which expresses the extent of damage also reflects an endeavor to simplify matters, and to avoid unwarranted, time consuming law suits and disputes. This was also justified by the fact that even if the value of real property could be established with a certain degree of accuracy based on contemporary sales agreements and assessment records, proving the value of movable property found on real property would not be possible under any circumstance.

Paragraph 4

The nation's capacity to carry a burden does not permit the full reimbursement of damages. Therefore the Law prescribes a fair method of degressively indexed tiers and defines the maximum amount of indemnification that may be paid per piece of property and per person entitled to indemnification.

Paragraph 5

The Office having jurisdiction issues indemnification vouchers in the amount to be indemnified pursuant to Paragraph 4 to the natural person who proves his entitlement.

The indemnification voucher is a security which embodies a peculiar right. It is based on Paragraph 338/C of the Civil Code of Laws. Consistent with the definition of the indemnification voucher as a security redeemable on sight, the Law enables the transfer of indemnification vouchers to both natural persons and legal entities. Thus, anyone who acquires an indemnification voucher may use the voucher for the purchase of state property, irrespective of whether the holder of the voucher complies with the criteria established in Paragraph 2 of the Law.

The law intends to preserve the value of indemnification vouchers by rendering these as interest bearing instruments. In a manner different from bonds and other securities, the interest—just as the indemnification voucher itself—does not increase the volume of money in circulation. For this reason interest accrued at a rate of 75 percent of the prevailing basic central bank interest rate is added to the face value of the indemnification voucher in the form of capital. A number of reasons justify the application of this interest rate. One the one hand, the relatively low interest rate stimulates the holders to quickly make use of indemnification vouchers, thus reducing possible threats presented by the presence of indemnification vouchers to the evolving securities market. On the other hand, it was appropriate to set the interest rate near the rate by which the value of productive capital goods which may be acquired with indemnification vouchers appreciates. The rate by which the value of capital goods increases falls well behind the inflationary price increases of consumer goods or the amount of interest that may be paid on deposits. The state pledges productive capital goods which it owns as collateral for the indemnification vouchers. For this reason a disproportionate difference between the appreciation of capital goods and the interest earned on indemnification vouchers would be unwarranted.

In order not to disadvantage persons entitled to indemnification as a result of possible delays in judging claims for indemnification vouchers, the Law determines the date when interest begins to accrue independent from the actual date of issue of indemnification vouchers.

Redemption of indemnification vouchers is stimulated by authorizing the payment of interest for a certain period of time only: for three years starting on the date when an indemnification voucher is issued.

Paragraph 6

The Law enumerates data that must appear on indemnification vouchers. This enables a clear cut determination of the value of the voucher and describes use and transfer conditions.

Paragraph 7

Not unlike a note, the indemnification voucher constitutes a demand. But the indemnification voucher authorizes its holder to purchase state property for the face value of the voucher plus accrued interest, and not for collecting cash. Purchase of state property may take place whenever a state enterprise is transformed into a business organization, or when pieces of state property

are sold directly. Under the first alternative, an indemnification voucher may be exchanged for the stock (business share) of reappraised enterprise assets pursuant to the provisions of Law No. 13 of 1989 [Law on Transformation]. The second alternative permits the purchase of pieces of property (businesses) to be privatized and sold in public auctions. Such purchase could be made pursuant to rules provided in Law No. 74 of 1990 [Law on privatization of state enterprises engaged in retail trade, hospitality industry and consumer services].

The Law also enables the acquisition of ownership rights to arable land in exchange for indemnification vouchers. In certain instances, and in due regard to certain considerations, the Law also provides for the acquisition of property through the purchase of arable land.

Persons entitled to indemnification may use their indemnification vouchers primarily for the acquisition of types of property mentioned above. It was necessary however, to provide additional use opportunities for entitled persons.

Thus, indemnification vouchers may be used to pay for state owned housing, or for housing which is transferred free of charge to the ownership of autonomous local governmental bodies subsequent to the effective date of this provision of the Law. As a result of this solution the Law does not burden local governments which acquire property for a consideration of value by making the acceptance of indemnification vouchers as a method of payment obligatory, and does not establish such an obligation with respect to local governments which even though free of charge, have acquired their property prior to the effective date of this Law. Viewed from another angle, however, local governments ordered to accept indemnification vouchers may use those vouchers in the course of privatizing state property.

The provision which restricts the use of indemnification vouchers for the purchase of housing to entitled persons and to the use of only those indemnification vouchers to which such persons are entitled serves as a guarantee to the seller of housing. Accordingly, indemnification vouchers purchased from another person cannot be used for the purchase of housing.

The possible use of indemnification vouchers is expanded by two additional considerations. In certain borrowing transactions indemnification vouchers must be considered as the borrower's own financial resource, and based on the provisions of separate law, indemnification vouchers may be exchanged for a sum annuitized for life.

By providing multipurpose use opportunities the Law also serves the purpose of enabling certain larger organizations (local governments, financial institutions, social security, producer cooperatives) to utilize the accumulated indemnification vouchers in a more concentrated and more efficient way in the course of state property privatization. This intent is realized by the provisions of Paragraph 8 of the Law.

Paragraph 8

Ensuring that indemnification vouchers in circulation are exchanged at a pace consistent with the pace of state property privatization is of fundamental importance. This is so because property subject to privatization serves as collateral for indemnification vouchers.

For this reason the Law authorizes the Cabinet to suspend the opportunity to redeem indemnification vouchers at the AVU's recommendation. Various serial numbers applied simultaneously with the issuance of indemnification vouchers, as mentioned in Paragraphs 5-6 of the Law also serve the purpose of appropriate pacing.

But the limitation on the exchange of indemnification vouchers may be enforced only temporarily, and only in a way that suspension would not result in unwarranted discrimination against the various owners of securities or in disadvantages from the standpoint of interest earned. The fact that suspension constitutes only a possibility must be underscored. It constitutes a guarantee to operate under an unexpected situation in which the possible shortage of property on the supply side could adversely influence the sales value of indemnification vouchers.

Pacing of the use of indemnification vouchers must be ensured not only on the "buyer" side, but also on the supply side. For this reason, the conditions established in the framework of the Law delegate the authority to determine the extent to which indemnification vouchers may be used in the framework of specific transactions under AVU authority. As a result of this provision an opportunity is established by which the AVU can sell pieces of property owned by the state well in excess of the 10 percent and 20 percent lower threshold limits established in the framework of the Law, to larger organizations which accumulated indemnification vouchers based on the multipurpose use provided for in Paragraph 7, and of course also to other persons entitled to hold indemnification vouchers. This also serves the purpose of the earliest possible "exhaustion" of the circulating supply of indemnification vouchers.

Paragraph 9

Reprivatization is not the purpose of this law. Partial indemnification is. While maintaining and not exceeding this principle, the law provides prepurchase rights to a certain group of former owners. The grant of prepurchase rights was regarded as appropriate because full indemnification could not be provided for reasons stated in the general intent, and because claims could be made for the reaquisition of property that may still be found in its original condition. This opportunity does not represent reprivatization either, it merely ensures a possibility for an entitled person appearing with his indemnification voucher to enjoy a civil law right to prepurchase his property vis-a-vis other entitled persons.

Exceptions enumerated in the Law ensure the feasibility of enforcing the prepurchase right. These exceptions rule out conflicts with similar prepurchase rights granted in the preprivatization law and establish a primary right for lessors residing in state autonomous government [as published] housing vis a vis the prepurchase right granted in this Law. For similar reasons the prepurchase right granted in the framework of this Law does not apply whenever the AVU sells the right to acquire the former property of the person entitled to indemnification, or sells membership in a company established as a result of contributing such property.

Paragraph 10

The law assigns authority of the first instance to conduct indemnification proceedings to county (Budapest) Offices. Decisions of the office acting in the first instance may be appealed to the national damage claims office acting in the second instance. The decisions of the national Office are final. In order to protect environmental considerations the authority charged with the protection of the natural environment takes part in the workings of the Offices.

Consistent with the Constitution, the Law provides for the judicial review of final decisions rendered by the national Office. Courts are authorized to review and change such decisions in full.

Paragraph 11

Indemnification claims must be filed within 90 days, according to the Law. This time period is needed to permit entitled persons to consider their claims, at the same time, however, this time period is also sufficient for such consideration. It would be unnecessary to provide for a longer period of time for consideration, because that would unnecessarily prolong the assessment of actual damage claims, and as a result of that, the entire proceeding. This then would result in continued legal uncertainty. The Law establishes the jurisdiction of Offices consistent with prevailing legal principles. If the property claimed includes real property, the office in whose jurisdiction the real property lays has jurisdiction. The Budapest Office has jurisdiction over claims filed by foreigners. This is consistent with prevailing rules relative to similar situations which proved to be appropriate.

The Law permits that all claims filed by any entitled person be dealt with in a single proceeding. Therefore, if more than one piece of real property is involved among the assets to be indemnified, and as a result of which more than one Office could have jurisdiction, the Law grants the jurisdictional choice to the entitled person.

Paragraph 12

An indemnification proceeding is based on a petition. A claimant surrenders his right to indemnification if he fails to submit a petition within the 90 day period specified in this Law. In case the claimant's failure to act occurred as a result of no fault of his own, the request for verification provisions of the law providing general rules for state administrative procedure may be applied.

In order to prevent prolongation of the proceeding the Law forces claimants to expedite as much as possible the successful outcome of the proceeding conducted to their benefit. In proceedings involving the release of arable land it is in the joint interest of both the business organizations and the entitled persons to familiarize themselves with indemnification claims. For this reason, the Office informs the affected organizations summarily of all the indemnification claims it received.

General rules for state administrative proceedings provided for in Law No. 4 of 1957 apply to the proceedings of the Offices, with the notable exception That the 30 day period for handling cases is extended to six months for purposes of this Law. It is apparent that the normal case handling period is unfair and insufficient in regard to the settlement of cases arising under this Law.

The Office is authorized only to examine the foundations of entitlement to indemnification and the extent of damage. It has no authority to render decisions with respect to ownership. If the affected parties fail to reach an agreement, disputes of this nature may be settled in the course of civil judicial proceedings. In certain instances proceedings conducted by other authorities may be required for obtaining proof. The Law mandates the suspension of proceedings if the claimant proves that he has initiated the necessary preliminary proceedings.

The character of proceedings justified the exemption of such proceedings from under the payment of dues.

Paragraph 13

In Paragraphs 13-28 the Law provides special rules for the determination of indemnification claims relative to arable land. These rules also deviate from the general procedural order. Thus a peculiar rule prevails relative to the determination of the extent of damage. In this regard the cadastral net income derived from arable land serves as the starting point. Since actual land market conditions have not yet evolved, the 1,000 forint per Gold Crown value—or the quadruple of that amount in case of forest land—as shown in the Law should be regarded only as a unit of accounting.

Auxiliary rules to determine the value of land are provided for instances in which the former cadastral net income of a given land area cannot be determined.

Paragraph 14

The extent of damage is determined based on a comparison of the Gold Crown value of two pieces of land and the negative balance incurred by the former owner if the former owner received land in exchange for the arable land or forest land he owned. Similarly, the amount of indemnification derived as a result of degressive calculations for arable land must be reduced by the amount of compensation (e.g. redemption) the former owner received for the arable land that was taken away.

Paragraphs 15-16

Land transferred to the ownership of cooperatives, or to the ownership of the state, and as such transferred for use to cooperatives as a result of applying the laws under the authority of this Law, serves as the primary collateral for the satisfaction of indemnification claims aiming for the acquisition of arable land. In order to secure this collateral, cooperatives are obligated to designate such lands following receipt of notice of indemnification claims pertaining to land, and must use such notice as the basis for designating land. Any failure to act in this relation must not be to the detriment of entitled persons, therefore, if a cooperative fails to designate land within the period specified in this Law, all land areas owned by the cooperative must be regarded as having been designated.

Similarly, a provision of the Law which sets the average Gold Crown value of designated land areas in the context of the Gold Crown value of a cooperative's other land areas serves to protect the interests entitled persons.

The practical means by which land related indemnification claims are satisfied is a peculiar right to purchase, tied to conditions and based on law.

Paragraph 17

The law also observes the interests of business organizations in prescribing the establishment of a land bank based on the number of members or employees such organizations have. The land bank enables cooperatives (state farms) to pursue farming activities on the one hand, and enables members and employees of these organizations to acquire arable land of an appropriate size in the course of subsequent distributions of assets, on the other. At the same time, the restrictive rule which prevents the withdrawal of most or perhaps all land to create a land bank in places where insufficient arable land is available serves as a guarantee to entitled persons.

In order to prevent abuse, the legislative proposal defines the criteria by which persons may be regarded as members or employees from the standpoint of creating a land bank.

Paragraph 18

A provision by which arable land within national parks, areas governed by international agreements and in areas subject to intensive protection cannot be released at all, and that lands in protected areas may be released only with the concurrence of the authority charged with the protection of the natural environment, and even then, only if other land areas do not suffice for the satisfaction of all indemnification claims has been incorporated with the intent of protecting natural values. In order to continue the deliberate protection of the natural environment the Law extends the restriction to areas that are not protected, but which are regarded as being protected.

Since considerations to protect the natural environment significantly limit land use possibilities, the Law protects the claimant by requiring that an advance notice be provided to the claimant concerning land use restrictions.

In due regard to the large number of protected historical buildings that may be found in the country which originally served agricultural purposes, and the utilization of which requires an appropriate surrounding land area, the Law prohibits the designation of such land areas for indemnification purposes.

Paragraph 19

It is not the intent of this Law to assign the burden of satisfying indemnification claims involving arable land exclusively to cooperatives, even though a decisive part of arable land is owned by cooperatives. For this reason, the Law guarantees that state owned land will also be used to a certain extent to satisfy indemnification claims.

Paragraphs 20-22

It is the intent of the Law to resolve the sale of land by establishing equal conditions for all entitled persons to acquire land, while on the other hand, lacking an actual land market, it is the intent of the Law to create a situation which encourages the evolution of the market value of arable land.

This dual purpose is served by including auctioning in the framework of the indemnification process, prior to the exercise of the right to purchase. The rule which requires that the sale of arable land designated for indemnification purposes takes place with the participation of entitled persons creates a competitive situation among participants. This serves the purposes of both indemnification and privatization.

The Law establishes equal conditions for entitled persons in terms of participating in auctions (purchase at auction) and thus for the opportunity to acquire land, without distinguishing between assets that have been confiscated. Thus not only former land owners, but also the members of the affected cooperative and local residents entitled to indemnification enjoy the right to take part in the auctioning, and to purchase land in the event that further conditions stemming from the need to utilize arable land exist.

An official authorized by the Office having jurisdiction at the headquarters of a cooperative affected by the indemnification requirement involving arable land conducts the auction in the presence of a notary public. Since no specific parcels of lands would be designated prior to auctioning, bids would be entered not directly for certain parcels of arable land, but for Gold Crown value, in part using the traditional method based on the upset price (3,000 forints) established by law, and in part, lacking an offer at the upset price, by using a continuously decreasing upset price to a minimum of 500 forints per Gold Crown value.

Entitled persons whose bids have been accepted may exercise their right to purchase in regard to parcels of

land chosen by themselves. Detailed rules for this process are contained in the implementing decree to accompany this Law. The need to formulate rational ownership conditions supports that provision of the Law which provides prepurchase rights in the course of auction for land surrounding detached farms to owners of detached farms entitled to indemnification.

Paragraph 23

In creating special rules relative to arable land, an effort was made to find a solution which is acceptable to both the entitled person and to residents of villages, and which also serves the purpose of utilizing arable land, in addition to the goal of settling ownership conditions. For this reason, the Law grants the right to purchase only to those entitled persons who ensure the utilization of the acquired land in a manner consistent with the purpose of such land.

The decision to be made by entitled persons regarding the exercise of the right to purchase is strongly influenced by strict rules provided as part of the Law which deal with the withdrawal of acquired land from agricultural production or the sale of acquired land.

Paragraph 24

The Law establishes preferential rules for entitled persons who intend to cultivate the acquired land themselves as agricultural entrepreneurs. Encouragement in this regard is provided by an authorization for the issuance of vouchers which may be used in the same way as indemnification vouchers. These vouchers are available in the form of agricultural entrepreneurial support for the difference between the amount of actual damage suffered and the amount paid in the form indemnification (but not exceeding 1 million forints).

Possible abuses with respect to such support payments are sanctioned by the Law in the form of converting such support into loans and by placing liens on property acquired as a result of support funds.

Paragraph 25

The provision regarding the reimbursement of the increased value of arable land not expressed in terms of Gold Crown value, as offset by state subsidies, prevents the possible groundless enrichment of entitled persons, and protects the interests of the auctioning seller.

The nation's limited capacity to bear a burden warrants the requirement that entitled persons also accept a burden along and in conjunction with indemnification. For this reason, costs incurred in the course of assigning arable land, the development of the land as an independent piece of real property and the recording of such real property are covered by the entitled person.

Paragraphs 26-28

The Law enables cooperatives to freely use indemnification vouchers received in exchange for arable land released to the entitled person in the exercise of his right to purchase. Cooperatives may use such vouchers to acquire assets released from under state ownership which are required for the pursuit of agricultural activities.

With respect to arable land managed by state farms and owned by the state, and included as part of the property to serve indemnification purposes, the Law applies the same rules as those applicable to lands owned by cooperatives.

With respect to state owned arable land subject to auctioning in excess of of land areas for which indemnification claims have been filed, the Law provides an unconditional right to entitled persons to purchase at auction.

While a cooperative may freely utilize indemnification vouchers received in exchange for arable land it owned, indemnification vouchers received in exchange for state owned land used by cooperatives or managed by state farms logically revert to the state.

Future of Agricultural Cooperatives Examined

91CH0692A Budapest HETI MAGYARORSZAG in Hungarian No 23, 7 Jun 91 p 5

[Interview with Dr. Janos Eleki, secretary general of the National Federation of Agricultural Cooperative Members and Farmers, by Nandor Keresztenyi; place and date not given: "How To Proceed in Agriculture? The Cooperatives After the Constitutional Court's Decision"]

[Text] Any mention of Hungarian agriculture's grinding halt belongs by now among the best of cliches. But there are many reasons for that sudden halt. They range from drought to the accustomed Soviet market's collapse, from the uncertainties worrying the agricultural cooperatives to the occupation of land by the Smallholders Party; and there is also procrastination on the part of both the parliament and the government. Now that the Constitutional Court has sent the Compensation Law back to the National Assembly and has just begun to deliberate the cooperative bill, the chaos is increasing further.

I asked Dr. Janos Eleki, the secretary general of the National Federation of Agricultural Cooperative Members and Farmers, the largest organization representing the peasantry's interests, to outline the possibilities for agriculture's future.

[Eleki] We turned to the Constitutional Court when the Compensation Law was passed. Although we consider as unconstitutional also several other provisions of that law besides the three the Constitutional Court has struck down, we are satisfied with the court's decision. But because we are now being forced to delay further certain things that must be done, I think that the parliament

ought to enact as soon as possible at least the Cooperative Law and the Land Law. Obviously, the earliest possible and precise clarification of who holds title to which property is indispensable to those who are striving to continue living in agricultural cooperatives, as well as to prospective foreign investors.

Seeking New Examples

[Keresztenyi] Our paper has started a series, reporting on the situation in county by county. In the course of this, I myself have found that there are more, rather than fewer, agricultural cooperatives than even a year ago, and that is true in the Nyirseg [Szabolcs-Szatmar County] as well as in Vas County! Admittedly, their number is increasing because they are splitting up. From the mostly forced mergers at the time of the party-state, in other words, the cooperatives are splitting up into their old selves.

[Eleki] Yes, the picture is extremely varied, and the agricultural cooperatives themselves are not refusing to return land that the owners want to withdraw. After all, there are earlier statutory regulations on the basis of which that can be done. Unfortunately, we are also getting reports from the Liberation Cooperative in Szeged, for instance, that returned land is lying fallow. Indeed, how much confidence can the newly private farmer have in the future when he sees that even the cooperatives' produce is superfluous, because there is no demand for hogs, milk or poultry, to mention only a few examples? But all this cannot obscure the fact that a new Cooperative Law, packaged together with a Conversion Law, is absolutely vital. The cooperative movement in our country has long been a member of the International Cooperative Alliance, and I myself happen to be the deputy chairman of one of its committees. Perhaps I need not prove to you that the chairmen of our cooperatives and our agricultural experts have been traveling abroad, including to West Europe, practically for decades. Therefore, what we are about to start now will be nothing new to them.

[Keresztenyi] Which means, if I understand you correctly, that cooperatives like the ones in West Europe will replace the earlier cooperatives of the kolkhoz type. That type, of course, has been refined into the Hungarian model, in practice and in the professional literature as well.

[Eleki] I would say that our ideal is the modern cooperative, in which voluntary participation is no longer an empty phrase. Voluntary participation and the restoration of private property are the two pillars on which we want to stand, with the help of the Conversion Law and within the framework of the Cooperative Law. This type of cooperative exists, and functions to satisfaction, not just in West Europe, but in more distant lands as well. In Japan, for instance. Returning to our country, what we are talking about is an evolutionary process. For there can be no doubt that, in the former socialist world's agricultue, cooperatives, i.e., the agricultural cooperative and the specialized cooperative as a looser collective, were the most successful in our country. The best proof of this is the supply on offer in food stores. There is no need to analyze the background and to boast about it.

'Just' Cooperatives

[Keresztenyi] But the two types of cooperative are about to disappear, and even their designations will have to be revised because, for the most part, farming will be left to the individual—indeed, to private farms—leaving only procurement, services and (by no means the least importantly) marketing to the cooperative itself.

[Eleki] The adjectives will indeed disappear, and these farms will have to be called just cooperatives. But we cannot speak of any great novelty. The private sector accounts already now for approximately half of the breeding, keeping and fattening of livestock, and the same is true of various niches within the growing of fruit and vegetables. On the other hand, it is more expedient to grow cereals and a few industrial crops on large plots, with mechanization. Perhaps I need not explain the reasons behind this.

[Keresztenyi] I understand. But then how will private ownership be possible of all the land farmed by a cooperative? In other words, the restoration of the owners' title in the land register?

[Eleki] Even in the past, members retained title to 38 percent of the total area farmed by agricultural cooperatives, and this proportion has now been raised to 50 percent practically everywhere. The cooperative bill mentions private ownership of 100 percent of the cooperatives' area as a possibility, but in the final outcome everything will have to solved locally. Of course, we expect that sooner or later the Compensation Law, which the Constitutional Court has sent back to the National Assembly, will go into effect, and then the proportion of land that has to be restored to private ownership will jump suddenly. I wish to emphasize that the agricultural cooperatives have not been opposed to returning land; they have been giving back land, and even doing so gladly, when the claims were justified. Just stop to consider. If we are unable to sell this year's wheat crop and the overfinished hogs remain grunting in their pens, then only a foolish cooperative chairman would prefer to assume these problems and expenses, instead of sharing them. Looking into the future, we can distinguish three types of persons: First, those who will remain in the cooperative, together with their privately owned land; second, those who will remain members of the cooperative, but will have no land to contribute; and third, those who have land but are leaving the cooperative. But what will the people in this last category do, or the long-time city dwellers who will now be getting back the land that their parents had been forced to hand over to the agricultural cooperatives? They will look for tenants to whom to lease their land, because most of them will not want to start farming themselves. And this tenant can be the cooperative in the overwhelming majority of the cases. After all, the cooperative has the machinery and

other equipment for farming. But nowhere will nonmembers be able to get more rent than what members are getting or, regrettably, not getting. For then the chairman, director or manager would be driven out, would he not?

[Keresztenyi] I already see emerging a new generation of populist writers and sociographers. For today it would already be possible to gather as many complaints as Gyula Illyes or Geza Feja collected in the 1930's. Really, what might be the outcome of rapidly spreading rural unemployment, of the nostalgia for farming on small plots, and of their restoration here and there?

Abandoned Elements of Welfare

[Eleki] I am not a prophet, but we already have an argument with the Ministry of Agriculture because elements of welfare, which the agricultural cooperatives have been providing for their retired members up to now, have been left out of the otherwise gratifying agricultural program. The answer, of course, is that such matters are not the ministry's task. That we can understand, but then this should be the task of the Ministry of Social Welfare, or of the government in any case. Our presidium adopted a standpoint on the government's much-awaited and finally completed agricultural program. In our standpoint we acknowledge that Hungarian agriculture's ability to stand comparison with the rest of Europe has finally been recognized, and declare that we did not dispute the state's role in the purposeful shaping of agriculture and the food industry. The cooperatives were among the first to embrace the reforms and the creation of a market economy. It is important that we ensure a level playing field for ourselves in the competition.

[Keresztenyi] You mentioned certain misgivings.

[Eleki] The already gloomy unemployment noted in the program could become a source of social conflicts that might turn the economically underdeveloped areas into a depressed zone. The program also mentions further tax increases and reductions of subsidies, but at the same time it would expect agriculture to contribute toward the country's balance of payments as much as before. Our federation is urging the immediate elaboration of a government program for handling the crisis, and to that end the convening of a national roundtable as soon as possible.

Cause of Grain Surplus Crisis; No Easy Solutions

91CH0692B Budapest MAGYAR NEMZET 18 Jun 91 p 9

[Article by Istvan L. Horvath: "Worthless Grain: Who Will Buy the Two Million Metric Tons of Surplus Grain?"]

[Text] Many bad things can also be said of the agricultural cooperatives, but it cannot be said that in recent decades they failed to learn how to grow grain crops efficiently. Cereals have unquestionably become a successful branch of Hungarian agriculture. Of course, that required good varieties, for which we have the Hungarian plant breeders to thank. But the government's firm hand was also necessary. Until recently, it was mandatory to grow grain crops, and there were also official prices that amply covered the production costs. Large-scale farming definitely favored growing wheat, rye, and barley profitably on large plots. This was the branch of crop production that lent itself readily to mechanization and earned substantial income within a short time, for relatively small inputs of live labor. As a rule, marketing was not a problem, either. Within the framework of intergovernmental agreements, the Soviet Union bought practically the entire surplus. But now these conditions—we may safely call them idyllic—are a thing of the past. We are gradually reaching the point where grain will be one of the factors that will trigger or deepen the crisis in agriculture.

Winnowing Crisis

Graingrowers, of course, express themselves even more bluntly. In their opinion, the at least 2.0 million metric tons of surplus grain this year will simply bury half the agricultural cooperatives, creating tensions that might have not just general economic consequences, but political repercussions as well.

Remaining dissatisfied with the government, the growers feel that the Ministry of Agriculture is still not treating grain production with the attention its importance deserves; in particular, that it is not devoting sufficient government resources to subsidizing wheat export. Furthermore, they resent that the ministry is continuing to handle grain production as if we were still living under central planning in a shortage economy. Namely, the ministry introduced export restrictions when there was a significant surplus, which ought to have been sold as soon as possible. In consequence, many of the granaries are still full, and there is no hope that they will empty by 1 July, as they almost always had in years past.

It sometimes does seem as if the ministry intentionally were letting farmers stew in their own juice, calmly waiting for the crisis caused by overproduction to shake out the less efficient growers from among the efficient ones, and expecting that this process, besides causing bankruptcies, will reduce the total area sown to wheat.

But this, obviously, is merely deceptive appearance. According to the ministry, for instance, the export restrictions were necessary because the autumn and winter grain budgets in physical terms had shown shortages, and the ministry wanted to ensure that the feed grain needed for the domestic livestock population stayed in the country. (It is an entirely different question as to why the grain budgets in physical terms had been wrong.)

However, we may now regard all that as a thing of the past. By inviting tenders from exporters for one million metric tons three weeks ago and for 750,000 metric tons

more on 13 July, the government has made it possible to export grain, and in the meantime it has lifted also the export ban on the 250,000 metric tons of wheat in the granaries from the previous harvest. It should be emphasized that all this merely makes grain export possible, but we are not talking about any firm export deals as yet.

Waiting for Government Credit

In any case, the grain processors and grain traders have formed their own interest-representing organization just the other day. (Graingrowers already have their Grain Committee within the National Federation of Agricultural Cooperative Members and Farmers.) The Grain Association has been funded by 37 firms—including 17 state enterprises, 14 limited liability companies, two corporations, three combinations, and the Budapest Grain Exchange—to represent more effectively their common interests.

But where and against whom? Daniel Lacfi, the newly elected president of the Grain Association, provided a simple answer to that question, at the press conference following the Grain Association's formation. (Lacfi's principal occupation at present is general manager of the Grain Trading Limited Liability Company, but not so long ago he was director general of the Grain Trust, one of the largest state monopolies.) He said that the Grain Association intended to remain sector-neutral and would strive to maintain good relations both with the graingrowers and the government.

It must be admitted that grain processors and grain traders, too, have a right to form an association to represent their joint interests. But one might ask whether it is advisable to have the miller playing on the same team with the foreign trader who exports grain? Of course, there are also far more important questions than that. For instance, will not the Grain Association become the Grain Trust's successor? Or if the state grain-trading enterprises, of which there are a good many in the Grain Association, dominate the association's decisions, how effectively will that body be able to reconcile interests with the state? The danger of becoming a monopoly was raised also at the mentioned introductory press conference, but Daniel Lacfi did not share those concerns. He said that there would not and could not be any cartel. Because, among other reasons, the traders and the processors were representing different interests within the association.

It will soon turn out whether the president was right. And within a few weeks we will also find out whether a grain surplus of 2.0 million metric tons, which now is merely an estimate, will actually be harvested, or if the surplus will be even greater. Because one now hears also of estimates ranging from 2.5 to 3.0 million metric tons.

But the fact remains that the world grain market is depressed at present, and therefore, we do not have much hope of concluding favorable deals. That is true even if now practically any volume of wheat could be sold for $80 per metric ton f.a.s. Adriatic port. That price, however, appears acceptable only at first glance. If we deduct the freight costs, a price of $80 per metric ton f.a.s. shrinks to $50 f.o.b. Hungarian border, and to merely $40 per metric ton on the farm. And that equals about 3,000 forints, far less than the actual production cost.

The Soviet Union would buy grain if we were willing to sell it on credit, with the government providing the credit or export credit guarantees. Poland, Romania, and Turkey recently sold the Soviet Union nearly 5.0 million metric tons of bread grain on such terms. Ahead of Hungary, the governments of these three exporting countries deemed it important to relieve in this manner the tensions that a grain surplus would cause. The Hungarian Government is not planning to follow suit. At least not for the time being. For to sell against government-supplied export credit the foreseeable grain surplus available for export would require at least 3.0 billion forints from the state budget and would increase the substantial amount that the Soviet Union already owes us. "Resources available to finance such risky transactions are very limited, because the Hungarian National Bank, in agreement with the IMF, is pursuing a tight monetary policy," said Gyorgy Rasko, the new state secretary at the Ministry of Agriculture, when he was discussing this subject the other day.

Meanwhile the graingrowers, processors and traders are demanding more and more insistently that the Hungarian Government, too, join the grain deal; and that it decide, even before the combines go out into the fields, the amount and form of a subsidy that will effectively aid grain export.

Corn Instead of Wheat

The Feast of [Saints] Peter and Paul [the traditional start of the grain harvest in Hungary] is approaching, and there is not much hope of finding a reliable customer for at least three-fourths of the grain surplus before the harvest begins. Thus, numerous farms could find themselves on the brink of bankruptcy by midsummer. For most of them, the proceeds from the sale of grain is one of the largest items of income, the first in a given year, from which they are able to repay their short-term credits. And as more and more agricultural cooperatives become insolvent, dramatic reports about the harvest will obviously increase, and not even the possibility of demonstrations can be ruled out. In response to this, the Ministry of Agriculture will most likely be forced to adopt further measures for the relaxation of tensions, but these measures are unlikely to be for the long term.

There is, of course, the question whether a solution exists at all whose warranty does not run out in weeks or months. But it may be regarded as almost certain that if we fail to conclude some sort of long-term agreement on grain trade with the Soviet Union, then a sharp cut in the total area sown to cereal crops will be unavoidable, because in Europe there is no serious customer other than the Soviet Union. In the EC countries the wheat

and barley surplus is close to 30 million metric tons a year. On the other hand, there are corn importers on our continent; Czechoslovakia and Poland, for instance. Consequently, it appears expedient to expand here at home the total area on which we grow corn, at the expense of the total area sown to wheat.

There is, of course, also another solution. The bread grain that has not been exported, and which cannot be sold profitably without a substantial subsidy, could be used as an animal-feed component, and the feed could be converted into hogs and poultry.

But who wants more meat at today's prices?

1990 Income Tax Results Briefly Summarized

91CH0692C Budapest MAGYAR NEMZET 20 Jun 91 p 9

[Article by (gergely): "Report Balance of Tax Revenue in 1990"]

[Text] "It is not my task to rate numbers," said Gyorgy Minarik, the new president of APEH [Office of Tax and Fiscal Auditing], at a press conference held yesterday. What he meant was that APEH did not wish to exceed its authority. Its task is to ensure taxpayer compliance, and to compile tax statistics. Income tax collection in 1990 totaled 117.5 billion forints, which presupposed 733 billion forints of income. The base of the taxes paid by taxpayers, or by employers on their behalf, was threefold: income from domestic sources that is lumped together as gross income; the 59 million forints of profit made on securities; and the 190 million forints of income from foreign sources. Total tax collection in 1990 was 31.6 percent more than in 1989.

Tax statistics provides details on individual income tax. Employees paid 90.5 percent of the total amount collected. The income that the taxpayer earned from his employer in his principal occupation remained the decisive source of income within total income. Sole proprietors—artisans, retailers, and persons licensed to operate small businesses—accounted for 2.3 percent. In contrast to a rise of 1.2 percentage points in 1989, the proportion of business incomes dropped in the end by 1.0 percentage point in 1990, to 4.8 percent. In the light of these figures it is not surprising that taxpayers employed in principal occupations had, at least on paper, the highest annual average income per person: 97,000 forints in 1988, 119,000 in 1989, and 150,000 in 1990. It is interesting to compare with these figures the annual average income of sole proprietors in 1989 and 1990, which was 101,000 forints each year. Here the statistics did not include the sole proprietors who reported a net loss, rather than a net profit. Such sole proprietors, incidentally, accounted for a third of the entire fraternity. The APEH report contains also other partial data. We learned that last year 104,000 sole proprietors who were in business as their principal occupation "realized" 128,000 forints [on average], whereas 98,000 sole proprietors had reported 136,000 forints of [average] income from business in 1989.

Of the 117 billion forints of individual income tax collected, retirees paid 5.7 percent or 6.5 billion forints. But this huge amount came from a relatively small circle of retirees: tax statistics includes here the persons who retired during the given calendar year, and who thus earned a substantial proportion of their income while they still were economically active. Another group comprises as a rule those retirees who pay income tax, at relatively lower rates, on their "share" of income from businesses operated by their children or grandchildren.

There is a seemingly boring but very suggestive statistical series on the stratification of the subjects covered by the statistics, or rather of the taxpayers who actually paid their taxes. Accordingly, 14.2 percent of all taxpayers paid 64.5 percent of the total tax collected; a year later 23 percent paid 76.6 percent; and last year 35.4 percent accounted for 83.6 percent of the total.

Public life was abuzz a few years ago: the newspapers were writing litanies about tips and gratuities and the recipients' tax liability, while politicians were delivering sermons on the mountain as they prepared to go into battle for the treasury and for improving the public's attitude to taxation. But last year there was silence; this group of taxpayers immediately shrank and, of course, less taxes were collected from them than in previous years. Or to be more exact, the average amount of reported income from tips and gratuities remained practically unchanged. There was a significant decline only in the case of gas station attendants; in contrast to an average of 27,000 forints in 1989, for last year they reported only 74.1 percent of that amount, i.e., 20,000 forints.

The APEH chairman's report dealt with the collection of individual income tax on the basis of the filed tax returns, and not with the population's actual income. But he did say that from the data on the Hungarian economy's performace, compiled and analyzed by the Central Bureau of Statistics and the Hungarian National Bank, it can be established that individuals and firms should have paid tax on between 100 and 150 billion forints more than they did, which would have meant at least 50 billion forints of additional revenue for the state budget. Naturally, the APEH's auditing activity must be improved, and Gyorgy Minarik promised to make it more effective. But he immediately added that it is again time to revise the rules of procedure in tax cases. An income-recording obligation that is unpopular and still remains the target of frequent criticism, namely the obligation to issue receipts which was introduced last year, will be strictly enforced in the near future.

Skubiszewski on Zaleski, Role of Government

LD2007164491 Warsaw Radio Warszawa Network in Polish 1106 GMT 20 Jul 91

[Speech by Foreign Minister Professor Krzysztof Skubiszewski to the Sejm in Warsaw, with introduction by Deputy Speaker Fiszbach—live]

[Text] [Fiszbach] I propose that we go on to examine Item 16 on the agenda: Information by the chairman of the Council of Ministers on the government's attitude to the statement by Maciej Zaleski, secretary of state in the President's Chancellery. I ask Minister of Foreign Affairs, Professor Krzysztof Skubiszewski, to take the floor.

[Skubiszewski] Mr. Speaker, may it please the House! The chairman of the Council of Ministers has enjoined me to reply to three questions sent to him by Deputy Barbara Labuda on 18 July. The first question is as follows: Were the course of the visit to the United States, and the content of the talks conducted there by the secretary of state in the President's Chancellery, Mr. Maciej Zaleski, agreed with the prime minister, and also with the relevant ministers of the Ministry of Foreign Affairs [MSZ], the Ministry of Internal Affairs [MSW], and the Ministry of National Defense [MON], because it emerges from reports in the press that Maciej Zaleski discussed problems that lie within the remit of the government and the above-mentioned ministries? End of quotation.

I have read this question from what looks like provisional shorthand notes.

The answer to the question is in the negative. The course of the visit and the content of the talks were not agreed, neither with the chairman of the Council of Ministers nor with the three ministers mentioned in the question.

I add supplementary information to this reply. When the Ministry of Foreign Affairs learned about the planned visit by Mr. Zaleski, the secretary of state in the MSZ made known his readiness to meet Mr. Zaleski, but Mr. Zaleski did not avail himself of this initiative.

The Ministry supplied the Chancellery of the President of the Polish Republic with an informative text on the internal situation in the United States, on U.S. foreign policy, as well as on bilateral Polish-American relations. They were not texts connected with the planned contents of talks because those contents were not discussed with the Ministry of Foreign Affairs. Those were texts which are received from us by government, parliamentary, or other delegations traveling to foreign states. The Ministry also maintained contact with the Embassy of the Polish Republic in Washington concerning strictly organizational matters connected with the originally planned visit to the United States by Lech Kaczynski, the minister of state in the Chancellery of the President of the Polish Republic.

When Mr. Kaczynski was recalled, naturally the organizational preparations concerned Mr. Zalewski's visit. The matter was arranged at departmental level and lower; there were, among other things, such matters as hotel reservations, travel arrangements for persons accompanying him, and being met at the airport. The embassy also arranged the meeting in Washington. None of this conerned the substance of the visit.

Deputy Labuda refers to press reports, and points out that Secretary of State Zaleski—and I quote—discussed problems lying within the remit of the government. End of quote. Indeed, he did discuss such problems. This statement is true, regardless of which version of the statements by Mr. Zaleski we accept as reliable: And there is more than one version [murmuring from deputies]—the press report in ZYCIE WARSZAWY of 11 July, or the transcript of the interview sent from the President's Chancellery to the Sejm speaker and minister of foreign affairs yesterday, or yet other versions.

Foreign policy belongs to the government and to the foreign minister. This is Article 41, Item 9, and Article 42, Paragraph 1 of the Constitution of the Polish Republic. At the same time, the president—and I quote—stands guard over the sovereignty and security of the state; the inviolability and indivisibility of its territory, and the observance of international political and military alliances. This is Article 32, Paragraph 2 of the Constitution.

This presidential power includes, by its nature, or may include, certain subject matter which comes within the scope of foreign policy, only here the Constitution does not set down precise norms. In practice, therefore, coordination is necessary between the president and the government regarding this subject matter.

I will go on to Deputy Labuda's second question. It is: What information does the prime minister have on the subject of the vision of the National Security Council [National Defense Committee] as a substitute organization, in case of the collapse of the democratic structures of government in Poland? End of quote. Well, put like this, the question does not exist for the government. The government has its contribution in the creation and consolidation of democracy in Poland. The government does not anticipate any substitute organization in relation to the democratic structures, and is not considering any. [applause] As a deputy chairman of the National Defense Committee, the Council of National Security, I state that this body in no situation sees any substitute functions for itself in relation to the democratic structures of government in Poland.

The third and final question is formulated as follows, I quote: Is there really such a danger in Poland as to be a threat to democracy? And are the government bodies not able to fulfil the role which they should execute in accord with the Constitution, [and] is that, however, to be done by the Council of National Defense, a nonconstitutional and extra-legal body?

Without mentioning the use of the double name the Committee of National Defense, and the Council of National Security, it should be explained that the relevant body is neither nonconstitutional nor extra-legal. It has its legal basis. I refer here to Article 32, Letter F, Paragraph 1, Point 5 of the Constitution, as well as the legal norms and relevance to the Committee for National Defense. But that's not what the question is about. Replying to the merits of the case, I state that the government does not see any danger of the collapse of the democratic structures of government.

The government and ministers are capable of fulfilling that constitutional role, and indeed, that role is daily and totally executed by them. Thank you, Mr. Speaker.

Danger of Weak, Ineffective Parliament Examined

AU1907065391 Warsaw RZECZPOSPOLITA in Polish 16 Jul 91 p 1

[Editorial by Lech Mazewski: "Strong Authority"]

[Text] Recently in Poland there have been calls for strong authority as an essential condition for further changes. But those who oppose strong authority claim it is the same thing as a dictatorship. Is it really? Years ago, Konstanty Grzybowski wrote: "What is a strong authority? Not every authority that implements its desires and silences the opposition is a strong authority. A strong authority is an authority that enjoys the support of social forces who know what they want and are able to correlate their wishes with the general interests of society. A strong authority does not oppose society and does not impose its wishes on it against its will, but conditions it to think about important matters and alters social traditions in line with its needs." So how should a strong authority in Poland be created here and now?

Since 9 December 1991 we have had a president elected in a general election. That means the president is not a purely ornamental representative of the state any more, but an institution with genuine power. That is completely in accordance with the principle of a presidential-parliamentary republic, for example, the type foreseen in the French Constitution. Nevertheless, such a system requires a restriction on presidential power, which is possible if there is a stable parliamentary majority which, together with the president, runs the country, appoints the government, and acts as a bridge between the two.

Whether the Sejm will be able to attain a position equal to that of the president depends on whether it will be capable of forming a lasting majority. The possibility of forming such a majority depends on the type of election code in force. The code that has recently been adopted is a major obstacle, if not a total barrier, to the formation of a parliamentary coalition.

The system of proportional representation foreseen for the elections will fragment the multiparty system. The political significance of this seems obvious. The result is an impermanence of parliamentary tenure and frequent changes of government. Governments in typical countries that have adopted this system, such as France, have not even survived four months in office. Long and dangerous government crises occur, during which the country is virtually devoid of a government, and possesses only ministers who are empowered to take care of petty, everyday matters. A state that practices this system for any length of time eventually weakens, difficult, unsolved problems accumulate, a conflict builds up, and the country's international prestige collapses. A crisis and dissatisfaction will build up inside the country, a possible prelude to a coup d'etat and dictatorship. The ease and frequency with which multiparty parliamentary democracies have given way to authoritarian regimes in Europe between the wars shows how weak the democracies were.

A lack of a permanent majority in the Sejm, the result of a system of proportional representation, will encourage an increase in Lech Walesa's position as president. This will certainly not be advantageous for the political system as a whole, because from the very beginning there will be no balance between the main bodies of authority, which could result in a Latin American-type of presidency. What should be done to prevent this?

Let me make it clear that Poland needs a strong, effective authority capable of carrying through the procapitalist reforms. The coming elections are perhaps the last chance to strengthen state authority by democratic means. The elections must be won by the post-Solidarity groups, which would not only provide political support for the changes in the system taking place, but would also be inclined to cooperate with the president in this process.

Today, the existence of such a political setup seems downright impossible. Nevertheless, for Poland's sake it is essential to have an election coalition of forces that stem from the Solidarity camp. The core of this coalition must consist of the Center Accord and Democratic Union, with the Liberal-Democratic Congress acting as a link between them.

To consolidate the reformist stream in Poland, the liberals suggest in addition that the Senate elections not be a competition between the post-Solidarity groups. An election alliance between these groups could assume various forms. In some parts of the country there may be neutral candidates dominating a given constituency, and in others there could be several candidates competing for one constituency.

A victory by antireformist and anti-Walesa groups will choke the Polish political system because a stable parliamentary majority is needed in order to run the country without conflicts, and such a parliament would run the country together with the head of state and appoint a government to act as an essential link between the president and parliament. If in addition social support for the reforms becomes so low that a continuation of

these reforms becomes impossible, then the danger of authoritarianism will quickly become real.

The role of the liberals in establishing a strong authority in Poland will depend on how much the party system becomes fragmented. Generally, such a situation favors centrist parties, because grand coalitions usually cannot be formed at the edge of the political spectrum, and extremist parties fail to find enough supporters. Therefore the core of coalitions always consists of centrist parties and parties situated slightly right or left of center. The main post-Solidarity parties fulfill these conditions.

As is usually the case in situations like these, a centrist coalition would not satisfy anyone. It would discourage both the right and the left, and create a constant source of dissatisfaction and a target of criticism. That in turn could cause the coalition to collapse. The system that is being proposed will be a paradox, for it will multiply its own faults. We have to expect this. Apart from that, we have no other way out.

This is a very difficult situation for the Liberal-Democratic Congress. There is not only a great chance in store for the liberals, but also an opportunity for them to assume responsibility for the country.

But if the effort to create a parliamentary majority capable of cooperating with the president in the democratic and procapitalist reforms to the country fail, the danger of an authoritarian dictatorship will become very real.

Democracy is a system in which the fate of the country is determined voluntarily or involuntarily by the will of the majority of its citizens. The first logical principle, which, by the way, is frequently forgotten, is the possibility to express this will. Wherever the will of the majority cannot be expressed, democracy suffers a temporary setback and gives way to dictatorship. Lech Walesa may be forced into such a role against his will.

Public affairs must be solved regardless of whether there is a parliamentary majority or not. The president will decide on matters about which the majority will have no opportunity to express their will. But that is better than a situation where it is impossible to make any state decisions at all. Under no circumstances can one come to terms with the paralysis of a state authority, whose energetic role in the process of Polish reforms cannot be overestimated.

Walesa Ally Urges Caution Over 'Collaborators'

LD1807215791 Warsaw PAP in English 2008 GMT 18 Jul 91

[Text] Lublin, July 18—One of Lech Walesa's closest allies on Thursday urged caution over the release of lists which allegedly name leading political figures from the 1980's opposition as "collaborators" of the security services of Poland's communist regime.

Jaroslaw Kaczynski, head of the presidential chancellery and leader of the Center Alliance, said that he was one of the few to have seen the lists. "There are many surprising names," he said. "But there is no proof that the lists are not a plant, that a given collection of papers is not a well-worked forgery. That is the moral dilemma.

"The issue is bound to come up during the elections," he continued. "Perhaps a decision will then be taken to release the lists. I will not prevent that. But we are dealing here with something unusually sensitive. The most dangerous agents do not appear on any lists. It could happen that the innocent will lose their heads, while the guilty will be laughing. I cannot say what the final decision will be," he said.

Belvedere on 'Political Map of Polish Press'

AU2007161791 Warsaw ZYCIE WARSZAWY in Polish 17 Jul 91 p 2

[Text] PAP—The president's Press Office is drawing up a political map of the Polish press on the basis of an examination of articles and information in national and regional dailies and weeklies.

"We do not want to divide the press into good and bad," presidential spokesman Andrzej Drzycimski told PAP. "We want to obtain a general picture of the press. We want to know which press titles have a positive view of the work of the presidential office, which titles are skeptical of its work, and which titles hold a neutral position.

"We are not interested in the gutter press or other titles unworthy of the journalistic profession such as NIE and SKANDALE," explained Drzycimski. "We are carefully monitoring the geographical structure of the Polish press, which indicates that the strongest concentration of publishing is in three areas—Warsaw, Silesia, and Krakow."

Union of Press Publishers Established

LD1807214891 Warsaw PAP in English 2034 GMT 18 Jul 91

[Text] Warsaw, July 18—Several leading Polish press publishers, including POLITYKA and GAZETA WYBORCZA, have joined together to form the Union of Press Publishers, it was announced on Thursday.

The new union will seek to defend freedom of speech and the interests of its members, to pay attention to press ethics, to promote the development of the technical base and the distribution system for the Polish press.

The union is open to any adult Polish citizen carrying on the business of publishing, with the exclusion of publishers of pornography.

Botnaru Charges FSN Corrupt, Totalitarian

91BA0875A Bucharest ROMANIA LIBERA in Romanian 29-30 Jun 91 p 3

[Interview with Delegate Sorin Botnaru by Sorin Rosca-Stanescu; place and date not given: "National Salvation Front, a Totalitarian and Corrupt Party..."]

[Text] [Rosca-Stanescu] Were you banned from the FSN [National Salvation Front], or did you leave it on your own?

[Botnaru] One and the other.

[Rosca-Stanescu] How is that, Mr. Delegate?

[Botnaru] First of all, I would like to talk about the intolerance of the FSN leadership toward any other viewpoint, toward any leaning other than that of the group at the top of the heap. Actually, the FSN leadership could not bear the existence of a group that had begun to draw other FSN delegates. I am referring to the "20 May" Group.

[Rosca-Stanescu] And who are the "undesirables"?

[Botnaru] In addition to myself, several other members of parliament; Gheorghe Manole (who had belonged to the Executive Office of the Front's Council), Dan Fleaca (former president of the Front's Council for Sector 4, and then president of the CPUN [Provisional National Unity Council] in the same sector), Ion Zborcea from Teleroman, Mihai Stoica from Roman, Gabriel Niculescu from Giurgiu, Vasile Radulescu (Vaslui County representative), and several other members of Parliament. For my part, I have been president of the Sector 2 CPUN, president of the Bucharest CPUN, president of the Bucharest FSN, and member of the Central Management Council. The group has now grown and its political orientation has diversified. The "20 May" Group has gathered delegates from other opposition parties. But it is also true that some of those who have joined are further to the left than we are. Our dismissal occurred immediately after the declaration we made following the FSN National Convention; an expulsion that is null and void, because we did not abandon the Front's initial principles but its present leadership.

[Rosca-Stanescu] Most of you held leading positions in the FSN. How do you respond to the possible accusation that you were pushed aside specifically because the Front made serious mistakes during the time you were in responsible positions, mistakes that alienated a large portion of the electorate?

[Botnaru] This is a problem each of us must work out. In my case, I know what I have done and my conscience is clear. Not only can I not be associated with the Front's serious errors, but on the contrary, it is well known that I tried to fight against those mistakes and their effects. But let it be understood that if you asked me to chose today, I would certainly not choose the FSN.

[Rosca-Stanescu] Why is that?

[Botnaru] The FSN is no longer anything more than a totalitarian party. The system of leadership selection, a leadership that is practically impervious to circumstances within the FSN, its tendency to entrench its power independently of society's reactions, the absence of feedback between the FSN and society, intolerance toward other political options, all determine the mold currently adopted by the political organization. It is the result of a thinking style dominated by the familiar concepts of the Romanian Communist Party. It is the result of the education received by such people as Victor Secares, Victor Paschi, Ion Moldovan, Constantin Sorescu, and others. Petre Roman is the "recipient" of this team's work. The fact that he accepted his position as national leader in a political organization that was faced with the problem of moving away from a period of personality cult, of centralized power, indicates that he is "sensitive" to this method of leading a society.

[Rosca-Stanescu] Is there corruption within the FSN?

[Botnaru] Obviously, yes. Groups interested only in power and material gain have dominated the Front from the start. Corruption is defined by the manner in which functions are conferred and in which they are used. The Front's corruption involves the gathering of direct material interests. Which is not surprising: The Front is dominated by people with specifically communist thinking styles.

[Rosca-Stanescu] How are relations developing between the FSN and Vatra Romaneasca or the PUNR [Romanian National Unity Party]?

[Botnaru] In Transylvania, the battle consists of who will swallow whom. In Bucharest, the priority is not on nationalism, but on Phanariot doctrine, on corruption. As for Verdet, only interests regarding the apportionment of power could bring him closer to the FSN, and certainly not priorities of an ideological nature.

[Rosca-Stanescu] It is rumored, Mr. Botnaru, that you have prepared your own conclusions and recommendations regarding the events of 13-15 June. From what standpoint do you criticize the government?

[Botnaru] On the morning of 13 June, a forceful entry was conducted in University Square according to a poorly designed plan, as a result of a decision which constitutes a great political mistake. But I will present my views in Parliament about this matter.

[Rosca-Stanescu] One last question: What is the direction in which the Executive Council is steering us?

[Botnaru] A new cycle will be triggered, which could lead to explosions of the type we saw on 13-15 June 1990. With other actors, and perhaps with some differences. If this occurs, we will see the opposition parties brought into the dramatic situation in which groups of people found themselves on 13-15 June. The purpose? The same combat to destroy.

[Rosca-Stanescu] I do have another question: What will you do from now on?

[Botnaru] I would like to help a collaboration between the intellectual elites that exist in both camps. It is the only means for Romanian society to return to normalcy.

Future of Civic Alliance as Party Discussed

91BA0875B Bucharest ROMANIA LIBERA in Romanian 28 Jun 91 pp 1, 2

[Article by Sorin Rosca-Stanescu: "The Civic Alliance: Faced With a Decisive Option"]

[Text] The FSN [National Salvation Front] has cheated. Does the Civic Alliance cheat as well? The government's mistakes lead to the creation of the Civic Alliance Party. Does it have a platform? The decision of the Civic Alliance congress can represent a first step toward the victory of democratic forces.

At 0800 on Sunday, the conference of the Civic Alliance will open in the Multipurpose Hall in Bucharest, and its congress will be held at the beginning of July. Conferences are being organized at its 38 local chapters. On Wednesday, the Civic Alliance leaders invited all its founding members to a meeting.

It is no secret that the Civic Alliance is faced with a fundamental option. Its members will have to decide whether this organization, which according to the latest surveys has the highest level of credibility, will or will not engender a political party; the discussion will focus on this topic, as did the meeting held on Wednesday. Ever since its creation, the Civic Alliance has embraced this quandary, created by the long-range objective of establishing a Romanian civilian society, combined with the most natural desire to react to the dangers that threaten democracy, and to intervene effectively and promptly in political life through specific instruments. Two complementary concepts, two means of action, that have evolved into a relative symbiosis. The Civic Alliance leadership did not, as its enemies expected, become a two-headed entity.

The indications are that the Civic Alliance Party will be formed very soon. Its nucleus will be composed of people who, for different motives, not to mention reservations of a moral order, refused to participate in politics within existing parties. During the first months following the overthrow of the dictatorship, the FSN acquired a large number of sympathizers, having assured the electorate that it would not seek power, but simply manage the nation's economy and the competition among parties until the elections. The FSN has cheated.

Will the Civic Alliance be accused of the same? Will millions of people be faced with an inescapable situation: misleading the electorate at the time of local elections? Will public opinion understand that "the FSN shift" was carried out by a group which more than anything else wanted power, while the creation of a Civic Alliance Party is the result of a process started from the bottom up? Will it understand that the Civic Alliance sympathizers and members are those who want and demand the creation of the party? Without assuming political responsibilities, without participating in parliamentary pursuits, the Civic Alliance is fighting in a vacuum. Why is that?

Mihail Sora explains: "It is a demonstrated fact that those in power lack the instinct to accept the alarm signals coming from the civilian society. The government prefers opacity to transparency. In this case, the Civic Alliance would have to assume the role of radicalizing society, of shattering the ceiling of nonviolence. The realistic alternative is to use the political instrument itself and participate in the electoral campaign together with the other democratic parties." The large majority of Civic Alliance members and sympathizers are people who could not find a place in any of the existing parties. Several months ago they refused political responsibilities. They would not so insistently want to create a party if there was another way out of the tragedy through which Romania is now struggling. This is a significant change in the people's minds, determined by serious mistakes being made by the government. But today's Civic Alliance structure also includes members of other opposition parties; many former FSN members have also recently joined it. Will the present option alienate part of the electorate?

Opinions are divided. Sorin Dumitrescu, for instance, stated on Wednesday that "those who continue to be a Mafia supported by a communist-Securitate structure, base themselves on a network created over a period of 40 years. In its initial form, the Civic Alliance was a huge organization that could have penetrated this network. It could have pursued political matters without entering the race for power." An example of the counterargument comes from Octavian Paler: "At first, we believed that the Civic Alliance legitimized a hope. But in fact it legitimized the people's aversion to the idea of a party. Many Romanians felt the need to stay away from parties. The government took advantage of this, and the Civic Alliance fell into the trap. Without intending to, we boycotted the idea of pluralism. We cannot be political without parties. I think that now, when the FSN is crumbling, we find ourselves in a time crunch. Soon, Romania's enemy will no longer be the FSN, but the extremists who appeal to man's visceral nature. The perspective of becoming a communist-fascist country is like a nightmare. If the Civic Alliance does not create a party, we lose all those who placed their hopes in us."

The extent to which the creation of the Civic Alliance Party is a necessity, and thus objectively motivated, will also determine the electorate's reaction. The essential question is whether through its actions, the Civic Alliance will or will not deliver a greater number of votes for the opposition. The forecast, or at least the indications from the chapter conferences, is of a Civic Alliance Party supported by the full range of civilian society, for whom the party will assure both the theoretical foundations and

the link with various socio-professional categories. But the answer to the question of whether this party will substantially contribute to a consolidated opposition also depends on other relationships. Smaranda Enache draws attention to relations with opposition parties, and on the role that a united opposition supported by the Civic Alliance should play in local elections; this means joint slates and single candidate support, independently of party, as a function of the candidate's realistic chances in the campaign. Alexandru Popovici, deputy director of the Oil and Gases Institute of Ploesti, stated that all the Eastern European countries are witnessing serious voter absenteeism, and that the Civic Alliance, together with its party, should find the means to draw as many people as possible to the ballot box. Adrian Moruzzi, president of the Pro Democratia Association, insists on the need for the Civic Alliance to place itself at the service of workers, of unions: "The unions have had to enter the political arena because no party until now has represented their interests. The congress will probably decide to create the party; at the same time, the civic strength of the Civic Alliance will remain and will expand."

A party must also have a platform. The Civic Alliance Party will probably use the documents it has published during the eight months of its existence, as suggested by Gabriel Andreescu, referring to the "Civic Alliance Charter," the "Charter of Fundamental Rights and Freedoms," the "Reconciliation Declaration," and the "Outline for an Economic Program." "These documents will have to be expanded," he said. "Others, currently being drafted, will give the Alliance an even more precise identity."

Lastly, the future of the Civic Alliance also depends on the moral, intellectual, and political standing of the leaders to be elected. From this standpoint, the optimism is based on the great reserves of notables in the Civic Alliance. It is difficult to predict what will happen following the fundamental option that will be exercised at the July congress. If the Civic Alliance maintains and consolidates the credibility that it enjoys in the country and abroad, and if it withstands the stabbing attacks from the government press, democracy will also finally find a place in Romania's political arena.

Parliament Vice President Quintus Interviewed

91BA0884A Bucharest TINERETUL LIBER in Romanian 26, 27 Jun 91

[Interview in two parts with Mircea Ionescu-Quintus, National Liberal Party delegate from Prahova and vice president of the Delegates' Assembly, by Mircea Florin Sandru; place and date not given: "A Stress Level Has Unfortunately Built Up That Could Get Out of Control"]

[26 Jun p 1]

[Text] [Sandru] It is obvious to any careful observer of our parliamentary life that this legislative body has undergone significant changes. Personal options have been visibly clarified, new fragmentations have appeared; in general, we are faced with a broader spectrum of political shades, with a "change of atmosphere." Could you give us some examples of these changes in the Delegate's Assembly?

[Quintus] It is true that during the year since 9 June 1990 interesting changes have taken place, both in the configuration of parliamentary groups, and especially in the mentality and personal options of some of the delegates. From the initial atmosphere of intolerance and obstruction of opposite opinions, we have slowly achieved a more accurate assessment of various ideas; we have gotten to know and understand each other more clearly, and have begun to realize that from different positions, with different concepts, we nevertheless have goals that are sometimes similar. Of course, we are also feeling the effects of a parliamentary experience that we all lacked, independently of age, independently of political leanings, independently of profession. Even if some of us made our political debuts before 1944, we were all beginners in the current Parliament.

As you observed, changes have also taken place in the configuration of parliamentary groups. Some of the delegates are trying to find their most appropriate position following the settling down of political options, others are leaving the mainstream in search of more favorable paths, and others are becoming casualties of personal vanity or interests. We now have a group with a social-democrat hue, broken away from the FSN [National Salvation Front], and even a "liberal orientation" group composed of the members of at least five parties.

But I believe that the most important change has occurred in the capability of most delegates to discriminate between arguments and to vote, not in terms of political support or opposition, but in terms of a law's importance and usefulness.

[Sandru] The legislative marathon in which you have participated for about a year appears to be rather draining....

[Quintus] At last, I have heard some one say it! I have to say that this activity is often exhausting. Very few can or want to understand how tiring our work is. I was saying, half seriously and half in jest, that as a member of Parliament I now spend days similar to the ones I spent when I was forced to work on the Canal. Except that there I was working 10 to 12 hours per day, after which I would collapse on a wooden pallet and be oblivious until the next day, whereas here even the evenings are not our own, and during the so-called free time we must prepare to debate draft laws, to read the newspapers, and to fulfill our responsibilities in our electoral districts; all of these obligations are purely and simply eating up our time.

[Sandru] During the debates of various laws, you and your colleagues have proposed many amendments. Some

were accepted, some not. Did subsequent events somehow positively or negatively confirm your choices?

[Quintus] We have had the satisfaction to note that many of the amendments proposed by me or my colleagues were accepted, sometimes by unanimous vote—just as we voted on the amendments proposed by the representatives of other parties.

To be sure, we have not been able to determine the extent to which the outcome confirmed the correctness of these amendments. Nonetheless, from the application of some laws, such as the Land Resources Law, we did realize that the effect of the changes was beneficial, eliminating many of the dissatisfactions expressed among the peasants. More to the point, we have seen that the absence of provisions on which we insisted but which were rejected, has produced serious difficulties for the commissions. I'm referring to the proposal to allow those entitled to it to be allocated land from IAS [State Agricultural Enterprise] as well, when it proved insufficient otherwise, and we were not surprised to learn that in some areas IAS land was allocated illegally. In this case, life positively confirmed that choice.

[Sandru] As member of the PNL, do you consider that the laws adopted so far are sufficiently infused with the liberal essence which your organization often promotes?

[Quintus] Some speculations have been formulated on this topic. At its presentation, even the government's program was labeled as "very liberal." Theoretically, this statement was not too exaggerated. A market economy, independently of who invokes it, can be nothing but liberal in its nature. But it does lose its meaning when economic reform is not based primarily on the right of individual property. Many of the adopted laws did not take into consideration this essential condition. That is why we have categorically objected to the manner in which the government attempts to achieve the reform without assuring a corresponding social protection. We believe that without a guarantee and assurance of property rights, the market economy remains merely a tempting aspiration, as utopian as it is dangerous through its economic consequences. For this reason, most of the adopted laws do not carry the imprint of the liberal essence which you mentioned. In fact, we must not forget that their initiator is a government of a different political orientation. I am certain that the time for liberal laws will come.

[27 Jun pp 1, 3]

[Text] [Sandru] You are not the only one to say that the present government team is making mistakes. Has the opposition not made any errors as well since the elections?

[Quintus] I think that the opposition did make some errors, at times perhaps even in the manner in which it has chosen to express its opposition; probably and mainly due to its lack of experience. It has been said, and rightly so, that the existence of an opposition is a condition for democracy, and that in its absence the government loses its credibility. To return to your question, it is difficult to measure the ratio between the government's mistakes and our own. But it is absolutely certain that while the mistakes of the executive power have had damaging repercussions on the people's standard of living, have compromised the reform, and have placed the economy in a disastrous condition, our mistakes did not have similar effects because we have not had access to the decisionmaking process. This does not mean that we did not speak in opposition every time we felt the government was committing an error. Maybe we did not always understand these mistakes in their full magnitude and in time. In any case, we did not hinder the useful undertakings of the executive branch. However, the advantage of the opposition—that it can err without serious consequences—must not encourage us to repeat our mistakes.

[Sandru] Still, do you not believe that some opposition mistakes can cause government errors?

[Quintus] I believe that the most significant error of the opposition is to not criticize the errors of the government. We have not yet made that mistake. It is probable that any political force that would have won the 20 May elections would have been confronted with the same difficulties. But we do charge the Roman government with a lack of concern for justified protest, and with the selection of inappropriate methods for solving the crisis in which we find ourselves. Many of the members of government are men with theoretical training, but they lack the pragmatic sense without which even good intentions have no value. As we are all aware, the situation worsens every day, strikes are multiplying and widening, and a stress level has unfortunately built up that could get out of control. It seems to me that the government's most serious error is the insistence, stubbornness even, to not accept the fact that the situation of the electorate, its options, are no longer those of a year ago. As a result, it is our opinion that although legal, the position of the executive branch is no longer legitimate. Unfortunately, mainly for the country, six months ago those in power refused the solution of constituting a national union government. We were ready to assume the responsibility of a collaboration in a situation that was already serious even then, considering that whether we are of a liberal, peasant, ecological, or other party orientation, we are first and foremost Romanians and have the duty to try to reconstruct the country together. I want it known that none of us are happy about the failure of the FSN government.

[Sandru] To conclude, it appears that the idea of forming a national union government has been accepted.

[Quintus] I have no information in that respect. On the contrary, it seems that an attempt is being made for another meaningless reorganization formula. A government without the participation of the country's main political forces, from which I do not exclude the FSN,

cannot achieve credibility either at home or abroad. I note that the union federations are also asking for the formation of a national union government led by someone who has no political ties. This could have been obtained six months ago, through dialogue, through understanding, rather than under the pressure of this stress. I don't know if it's not too late to consider such an exit from our predicament, but something must be done so that the martyrs and heroes of the revolution will not accuse us of having made a futile sacrifice.

Mesic Views Developments of Crisis

91BA0890A Zagreb DANAS in Serbo-Croatian 2 Jul 91 pp 18-19

[Interview with Stipe Mesic, constitutional president of Yugoslavia, by Mladen Maloca and Jelena Lovric; place and date not given: "Croatia Is Not Kosovo"]

[Text] It seemed that the persistent Vasil Tupurkovski had already succeeded in his diplomatic activity and that on Saturday evening the Federal Presidency would finally be officially installed thanks to the election of Stipe Mesic as president. But the deep divisions and differences that prevail among the republic political leadership were not overcome this time either. Stipe Mesic was again not elected, and the Yugoslav crisis moved ever faster toward a disastrous outcome. Even Stipe Mesic himself did not conceal his disappointment with this turn of events, although his optimism and ability to respond to everything with a feint have not left him even now.

"I feel like someone in that Montenegrin series—Djekna has not yet died, and we do not know when she will."

A feint exuding bitterness. Not for his own sake, but because of the ever clearer awareness that things are taking a turn that was not welcome, one that will be increasingly difficult to stop. "Yugoslavia's erosion is continuing, and maintaining this kind of uninstalled Presidency is leading us toward total collapse. For all practical purposes, the head of state is not operative, nor is the Presidency operative as the commander in chief, and you see to what all that can lead."

[DANAS] How do you look upon the dramatic development of the Yugoslav crisis, which has deepened since the Croatian and Slovenian decision on disassociation and the intervention of the Army in Slovenia?

[Mesic] I see no reason whatsoever for the Army's intervention. The decisions in Croatia and Slovenia were made on the basis of the desire and commitment of the people in those republics. As for us in Croatia, we have been talking the whole time and trying to offer a new model, but all such attempts have been rejected on the Serbian side. They have insisted on the old model of the federation, which, to compound the absurdity, was actually destroyed by Serbia when it abolished the provinces, when it set up economic and tariff barriers, when it hijacked Croatian property, when it set up the blockade against the Federal Presidency. That is the manner in which Serbia has led Croatia into a humiliating and unequal position, and we truly were unable to accept that kind of "modern" federation. The Federal Government and top Army leadership must give all of that greater appreciation and realize that Croatia and Slovenia are not the ones who are destroying Yugoslavia, but that it is someone else. Croatia and Slovenia have not wanted anything else than settled accounts and equal relations. We wanted an agreement reached as equal partners, not for us to receive from Serbia a dictate as to what we should do and how we should do it, as has been the case in Kosovo. Neither Slovenia nor Croatia are Kosovo.

[DANAS] From some of the reactions—both in Yugoslavia and also outside it—one can conclude that the act of disassociation has been conceived as secession, not as a process of disassociation. Are those decisions open to that interpretation, and has there been an actual secession and definitive departure from Yugoslavia?

[Mesic] No! We have said, both of us, that disassociation is a process. Secession is something quite different. As you know, we have taken the position that even under these conditions the Federation retains some of its powers. We have, of course, demanded that they be reduced to a reasonable measure and that we work toward an agreement in the meantime. But let us work toward an agreement. Nothing here is being done hastily. People just imagine that. Some people are bothered by symbols, others because the police have purchased weapons, and yet others because Slovenia put up its sign at the border. But that is not the problem. The problem is that official Serbia wants an expanded Serbia. And that is why hotbeds of crisis are being created in Croatia, in Bosnia-Hercegovina. And Slovenia could easily have taken another way out if it had accepted different rules of the game.

[DANAS] Of what rules are you thinking?

[Mesic] Precisely if they had decided to secede. In meetings of the Presidency, Borisav Jovic was constantly making generous offers to adopt a Law on Secession. "We are going to adopt a law, and then anyone who wants to, let them go ahead," he would say, almost offering such a way out to Slovenia. But this was only a trick so that he might in this way change the balance of power and create the preconditions for realizing the idea of an expanded Serbia.

[DANAS] Some experts interpret the desire of Croatia and Slovenia to become international entities as secession nevertheless, and they say that this is nevertheless something different from disassociation.

[Mesic] First we have to become a state, and only international entities can create an alliance. In that process, while we are becoming altogether sovereign, we have to work toward an agreement and settle our mutual accounts, so that we might arrive at a new model of our life together. We are persistent in making the argument to the world that this is not a case of secession. But there are many people who do not like settled accounts. Montenegro, for example. You recall when Ante Markovic said in a meeting of the Presidency that after Serbia, Montenegro had also attempted to penetrate the monetary system. Momir Bulatovic got up at that point and said: "I want to correct Mr. Markovic. Montenegro did not make an attempt. Montenegro carried that out and did enter the monetary system." So, there you have it, it is really difficult to accept equal relations of that kind.

[DANAS] How do you look on the possibility of resolving the crisis? The FEC [Federal Executive Council] has offered a moratorium and certain other measures, and the European delegation something similar.

[Mesic] All those moratoriums and all those stories are only a postponement and evasion of the essence of the problem. What change would take place in those three months? None! And the reason is that those measures do not get to the heart of the problem, and that is that some of the republics want to become independent entities through disassociation and arrive at a new association on the basis of interest. And all those stories about how over a certain period of time we will reach agreement about something, when some insist on a federation and others on confederation, do not lead to a solution. In such a situation, everyone remains dug in as to his own option. Croatia nevertheless has its referendum behind it, and Slovenia has its plebiscite. Which means that no government nor president of the republic can any longer change anything in this respect. We had the opinion of the people behind us. If official Serbia wants to be an equal negotiator, then it should also hold a referendum. And when it gets the opinion of its citizens, then we can negotiate. But they do not have that opinion of their citizens, and they are persistent in not believing the thinking of the citizens of Croatia and Slovenia.

[DANAS] Has Croatia changed its attitude toward the Gligorov-Izetbegovic proposal, and why?

[Mesic] Neither Croatia nor Slovenia has changed its position. The point is that this compromise proposal is one which each side is interpreting in the manner that suits it. For instance, when Mr. Kucan asked Mr. Izetbegovic whether the republics are sovereign states in their proposal, Izetbegovic said that they are. For us, then, that model is acceptable. But when Milosevic asked Izetbegovic whether Yugoslavia remained a state under that proposal, he again answered in the affirmative. So, of course, then Slobodan Milosevic also says that this model is acceptable to him. So, once again, they did not get to the heart of the matter, and we are again at the same place where we started.

[DANAS] We asked that question because before the meeting in Stojcevac Mr. Tudjman said that that model of Gligorov and Izetbegovic was acceptable.

[Mesic] Well, it is acceptable in its confederal section, where it speaks about sovereign states and to the effect that they can create an alliance of states. But when this is interpreted as a variant of an alliance of sovereign republics, in a federation that is in turn sovereign, then we have not gotten anywhere. We are back with the old model in which everything is possible, including a renewed attack on the monetary system, the theft of other people's property, abolishing the Constitution and the provinces. All of that could happen to Croatia and Slovenia in such a model.

[DANAS] We asked that question because a few days ago Izetbegovic said in public that in the negotiations among the three of them—Tudjman, Milosevic, and Izetbegovic—Milosevic had accepted the formula of an alliance of states, but Tudjman had rejected it. Is this an inconsistency?

[Mesic] No, just the opposite. It is a question of consistency. Milosevic never consented to an alliance of sovereign states. Only to an alliance of republics that would be in a modern federation. And only he knows what that actually means. As far as Tudjman is concerned, I can say that he favors an alliance of sovereign states even now.

[DANAS] Now, after the action of the Army, after the casualties that have occurred, after the war which has obviously begun, are Croatia and Slovenia closer to or further away from realization of their political objectives?

[Mesic] I believe that now even the last doubting Thomases have realized what is happening. It is also likely that it has now burst before everyone's eyes that force is not going to change anything, nor can it. I hope that everything that is happening will be a warning that our problems and our profound crisis can be resolved only through reason, only by reaching agreement. I believe that those attitudes toward events in Yugoslavia will also change in the outside world. Today, no one whose thoughts are democratic can any longer accept the argument of a flagrant and merciless military intervention and a military resolution of political problems.

[DANAS] In the context of all these events, how do you look upon the role of Prime Minister Markovic, the statement which he made, and the intervention which followed?

[Mesic] Markovic has not fully understood what is happening. He believed that the issue at the level of Yugoslavia could be resolved by carrying out reforms, by introducing the market, and through democracy. Now, however, he sees that Yugoslavia has more problems than just democracy or just reform.... It is a question of the equality of the republics and the nationalities, it is a question of rights which have been acquired, and also, I would remind you, of the rights of provinces which have been abolished. All of these things are at issue in Yugoslavia today. After all, we still do not know what is happening in Kosovo, but with all those efforts and persistence on the part of Ante Markovic, with all that support from the world for which he has appealed, we still have not gotten any ray of light in the tunnel, we still have not found the way to the exit. This involvement of the Army is also evidence of that. It is just that now things have become more complicated, but the essential answers still have not been found. That is why I emphasize once again on this occasion that every nationality has the right to its own individualization, the right to association, but only on the basis of its interests. Until we realize that, we will not find solutions to this crisis.

[DANAS] Markovic, then, no longer has a chance?

[Mesic] He cannot succeed. Especially after this tragic intervention of the Army. He cannot succeed while Serbia is constantly generating a crisis and making it impossible to find any solution. The government and Markovic, to oversimplify, are governing in a vacuum. They reflect along the lines of 'what if.' It is impossible to find a solution as long as Serbia behaves this way, so long as something like Kosovo exists....

[DANAS] But democracy also solved Kosovo....

[Mesic] Serbia cannot solve the problem of Kosovo. No way! And Croatia cannot wait and postpone the resolution of those issues which are essential to its political existence and existence in every other respect. So this intervention of the Army is the basis for this reflection of mine.

[DANAS] Do you know how its intervention came about?

[Mesic] It is rather difficult to find that out, because there is no commander in chief. By the logic of things, the Army should not have been used in the manner in which it was. But it was! So now who gave the order and how it was done, who issued the command to resolve the setting up of the signs for the customs system in that brutal way, that is now difficult to establish.

[DANAS] Is it a correct impression that Markovic was seduced and even tricked?

[Mesic] If he thought that the tanks could amble down to the border and just bring in new customs officials, then he was obviously mistaken. Once the tanks are brought out into the street, it is not easy to stop them, and the same holds for the Army once it is allowed to put its finger on the trigger.

[DANAS] What is your comment on the opinion that what is happening in Slovenia has rescued Croatia from greater and still more disastrous upheavals?

[Mesic] I would not agree. I still say that the problems in relations between Serbs and Croats are being artificially generated. The infiltrated Chetnik and terrorist groups are persistently bothering both the Serbs and Croats. I feel that this problem would long ago have been removed from the agenda and that Croatia could already have undertaken to resolve its economic problems if there had been more reason in the former Presidency, and indeed even in the one in which I sit, if all this that is happening in Croatia had been called by its right name, if Croatia had been given equal treatment like any other republic, and if Croatia had been granted the right to establish peace and order in those opstinas in which there have been terrorist attacks and the staging of superbly armed Chetnik groups financed from outside, if the opportunity had been given to resolve all that with the measures of a legal state. But that road was not taken, and the result has been the halting of economic flows, the closing of highways and railroads, frustration of reprivatization, hindrance of the tourist season, in short, a blocking of life in general. All of this hinders Croatia's development, and most of all those regions where those Chetniks are operating. On the basis of the conclusions and measures adopted by the state's Presidency, you see, the Army should have intervened and halted those illegal armed groups. But it did not do that, and they are moving around in Croatia, they are bursting into villages and cities, they are hindering people in their normal lives, they are threatening them, wounding them, killing them.

[DANAS] Do you see any way out?

[Mesic] A calming down of the political situation will remove the antagonism between people, and establishment of a legal system and a law-governed state is the strongest defense against the terroristic conduct of policy and the blackmailing of other republics. This has to stop once and for all!

Attack on Knin Would Mean End of Croatian State

91BA0917A Belgrade NIN in Serbo-Croatian 12 Jul 91 pp 15-16

[Interview with Milan Babic, chairman of the Serbian National Council and president of the government of the Serbian Autonomous Region of Krajina, by Srban Radulovic; place and date not given: "End of the Croatian State"—first paragraph is NIN introduction]

[Text] "We, as part of the unified Serbian aggregate, also have the right to take the first step in Serbian national policy, and it has been seen that our moves were proper and that others are following us. Indeed, some more quickly, and some more slowly...."

After the events in Slovenia, the continual armed skirmishes, and the major clashes in Slavonia and in the fringe regions of Krajina, political dialogue has been reestablished and efforts are being made to find a peaceful solution to the Yugoslav crisis. In this sense, a significant role is played by the Krajina question.

[Radulovic] What are the real chances of silencing the drums of war through negotiations?

[Babic] Any agreement is welcome that contributes to a peaceful solution of the crisis and to a settlement of relations between future sovereign states or states that would have stronger ties within Yugoslavia. However, there would be real chances of an agreement between Croatia and Krajina only if there were a halt to the aggression by Croatian armed forces in the territory of Banija and Kordun and in the Vukovar-Baranya region, or rather in the autonomous region of the western Serbian Vojvodina, as it was recently proclaimed. Only then could we begin negotiations on the establishment of mutual borders and on delimiting the Croatian and Serbian ethnic territory. Establishing borders would

open up the possibility of our proceeding with negotiations on future reciprocal relations.

[Radulovic] It is difficult to imagine Croatia abandoning its claim to the Krajina area, which is also borne out by the latest statements by politicians and police leaders. Still, does this mean that armed conflict is inevitable?

[Babic] It is a fact that armed conflict is continuing, and it can already be called a war for borders. Until Croatia suspends its armed invasion, we will have to respond to force with force.

[Radulovic] Is it possible for the sake of peace at home, as they say, that some sort of compromise solution will be reached with regard to the future status of Krajina? Autonomy within the framework of Croatia, for example?

[Babic] No, we have long since passed beyond that phase of relations, and regardless of Croatia's position, the SAO [Serbian Autonomous Region of] Krajina, in a union with Bosnian Krajina, will no longer be part of the territory of any Croatia.

[Radulovic] Even under possible pressure by international political factors?

[Babic] The unified Serbian Krajina will not give in to any ultimatum whatsoever from foreign missionaries, even though Yugoslavia has practically fallen under the trusteeship of foreigners, and we have had the absurd situation whereby the president of this state has been elected by a foreign mission, or agreements on internal problems have been made under an ultimatum by foreign states. Yugoslavia, such as it was, is falling apart due to the secessionist pretensions of Slovenia and Croatia, whose order-issuing authorities have now entered the public spotlight because of the resistance of the Serbian nation to the corrosion of Yugoslavia.

[Radulovic] What do you expect from the YPA [Yugoslav People's Army] with regard to the current "prewar" situation?

[Babic] The Army is in crisis, as is Yugoslav society, or rather the society that has emerged or is emerging from Yugoslavia, so that there are various approaches to the question of the position and role of the YPA. Nevertheless, I expect that the YPA will continue in its role as guarantor of peace and as a factor preventing large-scale interethnic conflict, just as its role was set out in the 9 May resolution by the Presidency of Yugoslavia. However, I do not expect, nor is it necessary, that the YPA will defend the borders of Slovenia and Croatia, which are not in Yugoslavia and which deny Yugoslavia; rather, it will defend the borders of the territory that remains in the federation.

[Radulovic] In this case, to what extent is it possible to speak not only of Yugoslavia, but also of the YPA, where the first element in the name is "Yugoslav"?

[Babic] I believe that Yugoslavia exists as long as there are at least two elements from the former federation that are in favor of preserving the federation. Nevertheless, the most optimal solution for the remnant of Yugoslavia is that this remnant define itself as a federation of a united Serbia and Montenegro, or rather as a union of Serbian lands, and if any other part of the former Yugoslavia remains in the federation, Macedonia or Bosnia, then we can retain the name Yugoslavia for that sort of federation. But even in that sort of state, all Serbian territory must be united in one federal entity. Only after the unification of all Serbian lands in one state aggregate is it possible to talk about possible relations with states of other Yugoslav nations or with other Balkan and European countries. In opening up the process of disintegration of Yugoslavia, the basic task for us Serbs is the unification of all Serbian lands, and the unification of the two Krajinas is the beginning of the creation of a unified Serbian state. As far as the Army is concerned, it must remain united in this remnant of Yugoslavia, the future members of which are committed to that type of solution, and the YPA should defend the borders, or rather the integrity of that territory. It is in this sense that the safeguarding of the borders of Krajina, as the borders of the remnant of Yugoslavia, should be regarded.

[Radulovic] And Knin?

[Babic] An attack by Croatian armed forces on Knin would mean the definitive end of the Croatian state, and it will be very dangerous for that state and lead to further campaigns in Banija, Kordun, and western Vojvodina.

[Radulovic] On what do you base that prognosis?

[Babic] On the mobilization of the entire Serbian territory. It must be clear that an attack on Krajina would mobilize the entire Serbian territory.

[Radulovic] In that sense, adequate assistance from Serbia is often indicated?

[Babic] That's not assistance, but rather a campaign by a single, unified nation in defense of Serbian national territory, to which all parts of the Serbian nation are bound.

[Radulovic] With regard to Serbia, several of the latest political moves are indicative, among them the election of Stipe Mesic as president of the SFRY Presidency. You stated earlier that Mesic cannot represent Serbs in Croatia and Krajina, and that that role, conditionally speaking, is assigned to Slobodan Milosevic, but also with a certain warning to the effect that no agreement will take effect unless it is confirmed by Krajina institutions.

[Babic] As far as the position of both Mesic and Drnovsek is concerned, they have no business in the Presidency. The very act of Mesic's election was irrelevant, although it is clear that he was imposed through the ultimatum-type demands of foreigners, regardless of the

fact that his state is no longer part of Yugoslavia. Any terms of three months, such as those referred to, are simply child's play, because it is clear that neither Slovenia nor Croatia will abandon their intentions. This is why questions are also being raised about the legitimacy of the position of FEC [Federal Executive Council] President Ante Markovic, as well as of the Federal Government, but also of federal institutions. In this sort of formation of Yugoslavia, the federal institutions are no longer able to represent the entire territory of the former Yugoslavia, and it would be logical to elect new ones, and possibly to define reciprocal relations with those who have left Yugoslavia.

[Radulovic] Practically speaking, however, Mesic was "elected" by Serbia.

[Babic] The election of Mesic and the Brioni declaration are a disgrace, primarily for the Serbian nation, which accepts the ultimatum-type demands of foreigners, because we know how Serbs have responded to such demands throughout history.

[Radulovic] As far as we know, that is your first critical stance towards any move by the government of the Republic of Serbia, even though the events associated with Krajina have been—and still are—interpreted in Croatia with the syntagma "Belgrade scenario."

[Babic] Ever since the entry of the SDS [Serbian Democratic Party] into the Assembly of Knin opstina, we have worked according to our own scenario and exclusively in the interest of the Serbian nation. The extent to which our scenario has coincided with certain other policies is a question for political analysis. It is clear that the unified Serbian nation must also have a unified national policy.

[Radulovic] Earlier, the decision on the accession of Krajina to Serbia elicited, one might say, surprise in Serbia, and the Serbian parliament even failed to respond to this move, at least in terms of adopting a corresponding resolution.

[Babic] These processes can be regarded in the sense that we in Krajina, faced with a situation of the disintegration and decomposition of Yugoslavia, have had to react, and we have reacted quickly, in due time, and properly compared to other parts of the Serbian territory, where reactions have been a little more impassive. We, as part of the unified Serbian aggregate, also have the right to take the first step in Serbian national policy, and it has been seen that our moves were proper and that others are following us. Indeed, some more quickly, and some more slowly, but we expect that this question of the relationship between Krajina and the Republic of Serbia—or rather, Morava Serbia, as I call it—will be resolved shortly.

[Radulovic] The unification of the two Krajinas has been announced, despite the earlier resolution to keep relations on the level of an agreement. What caused the change in this position?

[Babic] The unification declaration was adopted in a situation where Slovenia and Croatia had declared their sovereignty and independence, and that act was supported by Alija Izetbegovic as well. Thus, the declaration was a response to both the Croatian nation and to the Muslims, as well as to all other nations concerning the will of the Serbian nation. We will shortly be conducting a referendum on the territory of the Bosnian Krajina, in which the citizens will express their opinions in connection with unification with the SAO Krajina and accession to Serbia.

[Radulovic] Does this mean that Banja Luka will assume preeminence over Knin as the "capital"?

[Babic] Yes.